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ALLIANCE COMMUNICATIONS CORPORATION 1998 ANNUAL REPORT

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ALL FIGURES ARE EXPRESSED IN CANADIAN DOLLARS UNLESS OTHERWISE NOTED.

ALLIANCE COMMUNICATIONS CORPORATION IS A GLOBAL PRODUCER, DISTRIBUTOR AND BROADCASTER OF FILMED ENTERTAINMENT.

HEADQUARTERED IN TORONTO WITH OFFICES IN MONTREAL, VANCOUVER, LOS ANGELES, LONDON, PARIS AND SHANNON, ALLIANCE SHARES TRADE IN TORONTO AND MONTREAL UNDER AAC, AND ON NASDAQ UNDER THE SYMBOL ALLIF.

ALLIANCE

Dear Shareholders:

At press time, Alliance Communications Corporation and Atlantis Communications Inc. announced an agreement to merge into a single filmed entertainment and cable broadcasting company to be called AllianceAtlantis Communications. Combined revenue of AllianceAtlantis in the current fiscal year ending March 31, 1999 is estimated at over $750 million (including export sales of more than $380 million). The core businesses of the new company will be: Television Production/Distribution, Motion Picture Production/Distribution and Cable Specialty Networks.

The merger of AllianceAtlantis will be effected by means of a share exchange. Atlantis shareholders will effectively receive 0.5 Alliance shares for each share of Atlantis stock.

Atlantis Chairman and Chief Executive Officer, Michael MacMillan, will become Chairman and Chief Executive Officer of the new company. Atlantis President, Lewis Rose, will become President and Chief Operating Officer. Alliance Vice-Chairman, Victor Loewy, will head up the new company's motion picture business.

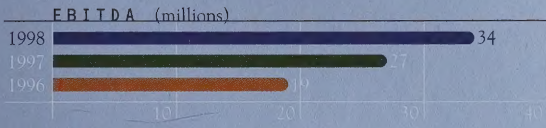
I will produce motion pictures as well as two television series for AllianceAtlantis. The agreement between the company and I will run a minimum of four years with a three year exclusive period. I will complete three films which are currently in various stages of production: David Cronenberg's *eXistenZ*, Istvan Szabo's *The Taste of Sunshine*, and Denys Arcand's *15 Moments*. I will oversee the production of seven other feature films and two movies-for-television currently in development at Alliance and I will develop new motion pictures in partnership with the company. In addition, I will retain creative responsibility over two new Alliance television series: *Power Play* (CTV), and *Cover Me* (CBC), both slated to begin airing in the new broadcast season.

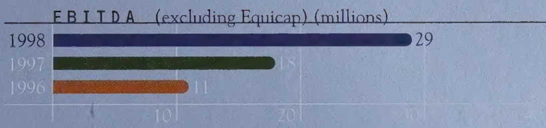
I leave my position as CEO of the company with the conviction that all shareholders are well-served by the merger. The future growth and prosperity of AllianceAtlantis are in the very capable hands of a talented management team headed by Michael MacMillan. They have extensive industry knowledge and relationships coupled with strong entrepreneurial drive and commitment to growth. In the past, they have earned my respect as competitors. It is time to join forces and create a Canadian company in filmed entertainment which will be an industry leader world-wide.

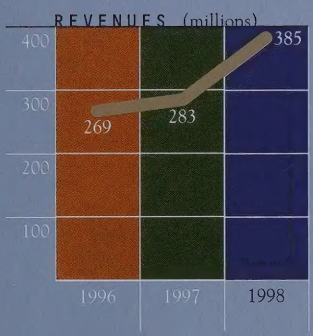
You will shortly receive a circular detailing the arrangements of the proposed merger together with more information about the strengths and obvious synergies available to the combined companies. I urge you to read that document and attend the upcoming annual and special meeting of shareholders now scheduled for **2:00 p.m. September 16, 1998** in the Design Exchange, 234 Bay Street, Toronto.

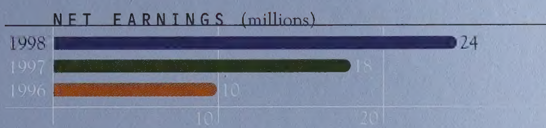
Sincerely,

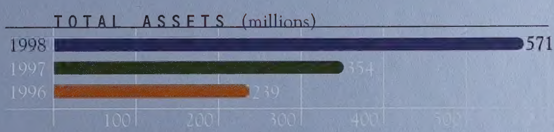
Robert Lantos
Chairman and CEO

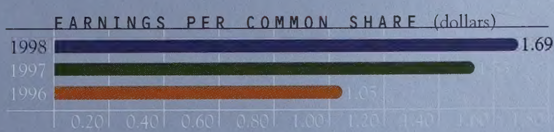

EBITDA (millions)
1998
1997
1996
34
27
19
10
20
30
40

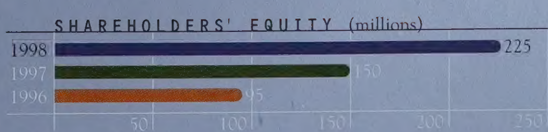

EBITDA (excluding Equicap) (millions)
1998
1997
1996
29
18
11
10
20


REVENUES (millions)
400
300
200
100
269
283
385
1996
1997
1998


NET EARNINGS (millions)
1998
1997
1996
24
18
10
10
20


TOTAL ASSETS (millions)
1998
1997
1996
571
354
239
100
200
300
400


EARNINGS PER COMMON SHARE (dollars)
1998
1997
1996
1.69
1.05
0.20
0.40
0.60
0.80
1.00
1.20
1.40

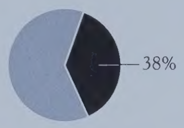

SHAREHOLDERS' EQUITY (millions)
1998
1997
1996
225
150
95
50
100
150
200
250

ALLIANCE COMMUNICATIONS CORPORATION

- MOTION PICTURE GROUP
- TELEVISION GROUP
- BROADCASTING GROUP
- MULTIMEDIA GROUP
- EQUICAP

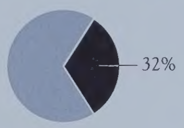
Alliance Motion Pictures develops, produces, acquires and distributes theatrical motion pictures for world-wide release.

% OF GROSS PROFIT



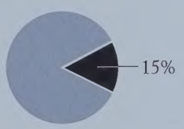
Alliance Television is a major supplier of drama to broadcasters world-wide. The Company delivered a record TV production slate of 122 hours of drama (nearly twice fiscal 1997).

% OF GROSS PROFIT



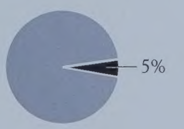
Alliance Broadcasting operates Showcase and History Television, two high-quality specialty television networks. Showcase has over 4.3 million subscribers. The audience for Showcase has grown 26% year to year and advertising sales have grown 34%. History Television, launched on October 17, 1997, has already established itself as the leader in high-income, educated viewers.

% OF GROSS PROFIT



Alliance Multimedia produces animated series and handles the Company's merchandising, music publishing and licensing activities. The Company now has more than 100 half-hours of high-end animation in its library.

% OF GROSS PROFIT



Alliance Equicap is the Company's structured financing arm and is a fully licensed securities dealer. Equicap is continuing to develop new investment products in the entertainment finance arena as well as grow its specialty financing subsidiaries, which now include Equicap Financial Corporation, Alliance Music Royalty Fund and Bulloch Equicap.

% OF GROSS PROFIT

ROBERT LANTOS
Chairman and Chief Executive Officer

A YEAR OF NEW BENCHMARKS

Fiscal 1998 was the year in which our disciplined two-pronged focus on building networks of distribution and content library began to fully bear fruit. We launched a new specialty network, History Television. We developed and produced new movies, television dramas and animation which delivered strong margins as well as international honours. We further enhanced our library with the acquisition of Norstar and Cineplex Odeon Films, the latter in fiscal 1999, and expanded our production capability with the acquisition of leading U.S. network movie supplier Citadel Entertainment.

Our revenue was up 36.3%. EBITDA increased 28.1%. Net profits were up 58.2% and earnings per share were up 31.8%. These amounts are all net of the gain on the sale of additional Mainframe shares. Perhaps most notably, if Equicap is excluded from the calculations, earnings per share net of Equicap's now defunct tax shelter syndication business was up nearly 80%.

Our share price in turn more than doubled during the year from $12 on April 1, 1997 to $28 on March 31, 1998.

In the Motion Picture Group, our movie, *The Sweet Hereafter*, set several new benchmarks. It became the first Canadian film ever to win the Grand Prix at the Cannes Film Festival. With its two Academy Award nominations, eight Genie Awards and its appearances on 256 North American top ten lists, *The Sweet Hereafter* became one of the most distinguished movies of the year. The honours were followed by profits as the film achieved a world-wide box office of $15 million. Alliance Releasing had another record year with revenues of $107 million, led by *Good Will Hunting*, *Scream 2* and *Austin Powers*.

In the Television Group, we nearly doubled the number of hours sold and delivered to a wide range of broadcasters, from 56 hours to 122 hours, or 69 hours to 135 hours, including animation. But volume is driven by hits - and we have them. The *Inheritance*, starring Meredith Baxter and Tom Conti, won the night in the US when it played on CBS in April 1997. Back on CTV, for a third season, *Due South* was, once again, the number one rated Canadian drama on television. *Shadow Warriors* was one of the top five watched original cable movies of 1997 when it played on TNT in October. Our animated series *Beastwars* gained the number one spot in its targeted age group of 9 – 11 year olds in U.S. syndication.

At Alliance Broadcasting, Showcase increased its audience share in the key 25 to 54 demographic by 30%. Subscriber revenue rose by 9% and advertising revenue by 34%. On several occasions, Showcase delivered extraordinary ratings, such as the airing of *Pulp Fiction* on January 24, 1998, which drew 549,000 viewers. This made Showcase the highest rated specialty network that night, topping several conventional broadcasters in the time slot. In addition to its rock solid business performance, Showcase's quest for excellence was rewarded with a Gemini Award for Outstanding Technical Achievement.

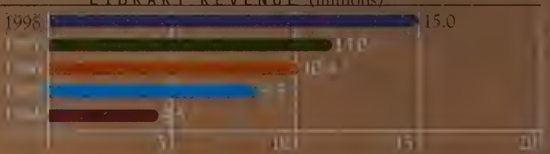
Library revenues are up 15.4% to $15 million. We recognize only high margin second cycle sales as "library" revenues. Their continued and consistent growth signifies long-term value and stability for the Company.

A YEAR OF NEW VENTURES AND ACQUISITIONS

Fiscal 1998 was also a year marked by new ventures and acquisitions. In December 1997, we acquired Los Angeles-based Citadel Entertainment, a premier supplier of U.S. Network movies. Following the acquisition, Citadel has sold and produced four new movies, three for CBS and one for NBC. Citadel's highly regarded Chief Executive Officer, David Ginsburg, has since been named Alliance's President of Filmed Entertainment. Based in our Los Angeles office, Mr. Ginsburg has overall responsibility for the Company's motion picture and television production activities.

Also in December, we acquired Norstar Entertainment, a Canadian producer/distributor with a library of 200 movies. Our distribution reach received another boost when we acquired a 75% interest in Cineplex Odeon Films, which will now operate parallel to Alliance Releasing as a second distribution track under the brand name Odeon Films. This deal adds another 250 movies to our library, which now includes over 8,000 hours of programming.

LIBRARY REVENUE (millions)



Through this acquisition, we secured a long-term supply agreement with October Films, a subsidiary of Universal Pictures, which, along with Miramax and New Line, will ensure a growing supply of top films for the Canadian market.

In August 1997, we acquired British boutique film distributor Electric Pictures, which was reorganized and re-launched in October with the release of *The Sweet Hereafter* in the U.K. This company now operates as Alliance Releasing U.K.

In May 1998, Guy Gagnon was named President of Alliance Vivafilm, our Quebec distribution subsidiary. Under his leadership, Alliance Vivafilm is undertaking its most ambitious Quebec motion picture slate, having acquired world-wide rights to new films directed by Robert Lepage and Denys Arcand, as well as movies from leading Quebec producers Roger Frappier and Denise Robert.

In October, we launched History Television, which now has 2.2 million subscribers and is growing according to expectations.

In its first full year of operations, Equicap Financial Corporation outperformed its business plan by completing 13 financings and contributing $1.3 million profit before corporate overhead.

A SUSTAINABLE MOMENTUM

The outlook for fiscal 1999 and beyond is one of continued growth in all core businesses. The Motion Picture Group has a broad slate of 10 films in production for delivery in late fiscal 1999 and early fiscal 2000. Highlights include David Cronenberg's *eXistenZ*, starring Jennifer Jason Lee, Jude Law, Willem Dafoe, Sarah Polley, Ian Holm and Callum Keith Rennie; Istvan Szabo's *The Taste of Sunshine*, starring Ralph Fiennes, Jennifer Ehle, Rachel Weisz, William Hurt and Molly Parker; Denys Arcand's *15 Moments*; Jeremy Podeswa's *Five Senses*; Alan Moyle's *New Waterford Girls*; and Gerry Ciccoritti's *Life Before This*.

Alliance Releasing's prospects are brighter than ever, paced by a promising line up from New Line, Miramax, October and a newly signed output deal with Artisan Films. These are augmented by the forthcoming release, via Odeon Films, of Canadian films such as François Girard's *The Red Violin* and Don McKellar's *Last Night* (both from Rhombus Films), and in Quebec, *C't'a ton tour, Laura Cadieux* (from Cinémaginaire).

Two new ventures will further enhance the breadth and profitability of this division. A 50/50 joint venture with Universal Studios Canada for home video distribution will improve the margins in this business by reducing costs, and a 51% Alliance owned joint venture with Famous Players will add motion picture exhibition to our business. A circuit of upscale, branded Alliance Cinemas will be operational in fiscal 1999. These cinemas will enhance our distribution reach and add a new revenue window.

London-based production company, Company Pictures, headed by George Faber and Charles Pattison, of which we own 33%, will produce its first slate of movies for world-wide distribution by Alliance. Supported by substantial British financing, these movies are partially funded by Alliance in return for international distribution rights. First up is Shane Meadows' *A Room for Romeo Brass*.

The Television Group has received orders for a record number of new series and movies from broadcasters, resulting in ten series in production for the coming fiscal year. 203 hours of television drama and animation, up from 135 hours last year, will be delivered in fiscal 1999.

Growth in our broadcast business is certain to continue, sparked by continually improving ratings at Showcase, up 26% from last year, and by a million new anticipated subscribers to History.

To better reflect our core businesses, our financial presentation will focus on television, motion pictures and broadcasting as of the first quarter of fiscal 1999. To achieve this, we will be including Equicap Financial Corporation in our motion picture division, in view of its role as a financier of independent films, and animation will be included in our television division.

Music publishing, merchandising and licensing, and Alliance Equicap's financial syndication business, will be presented under the heading "Other Businesses". We expect that this approach will provide shareholders with greater clarity about the Company's operations.

In summary, we remain committed to the course we embarked on many years ago. Build distribution. Build content library. A collection of great assets, increasing earnings and shareholder value will continue to ensue.

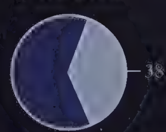
ANDRAS HAMORI
President, Alliance Pictures

PATRICE THEROUX
Executive Vice President,
Alliance Motion Picture Distribution

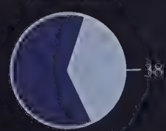
JIM SHERRY
Senior Vice President and
General Manager,
Alliance Releasing

MOTION PICTURE GROUP

% of total revenues



% of gross profit



The Sweet Hereafter made 1998 a memorable year in Alliance motion picture history. Winner of countless international and national awards, including the Grand Prix in Cannes and the Genie Award for best picture in Canada, *The Sweet Hereafter*, Alliance's fourth collaboration with Atom Egoyan, has brought profits as well as honours to the Company. It was on more than 250 top-ten lists, culminating in two Academy Award nominations. With a world-wide box office of $15 million, the film has been widely reviewed as being one of the best pictures of 1997. Completed in the same year was the teenage comedy *Strike*, which has been widely sold internationally. David Cronenberg's *eXistenZ*, starring Jennifer Jason Lee, Jude Law, Sarah Polley and Don McKellar, leads an outstanding slate of motion pictures for fiscal 1999, which includes Istvan Szabo's *The Taste of Sunshine*, starring Ralph Fiennes, Jennifer Ehle, Rachel Weisz and William Hurt, as well as Denys Arcand's *15 Moments*.


1


2

1 : Cannes Jury Prize winner, David Cronenberg, directing on the set of **eXistenZ**, his second film for Alliance. **2 :** Ralph Fiennes with Robert Lantos and Istvan Szabo on the set of **The Taste of Sunshine**.

3

3 : Academy Award-nominated Atom Egoyan directs Ian Holm in **The Sweet Hereafter**, Grand Prix winner at Cannes.

Included in the upcoming slate are movies from Alliance's Le Monde Entertainment, the Company's action/adventure movie label, which turned in another solid performance with movies like *Airborne*, starring Steve Guttenberg, *Dearly Devoted*, starring Rose McGowan, *The Fall*, starring Craig Scheffer, *Hidden Agenda*, starring Kevin Dillon, and *It Came from the Sky*, starring John Ritter and Christopher Lloyd.

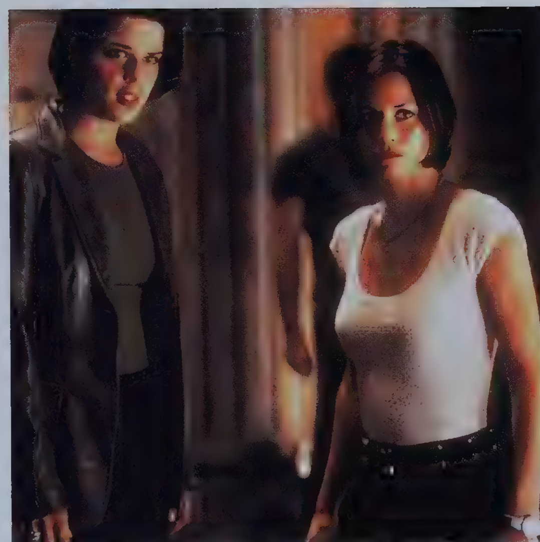
Strong returns from Alliance Independent Films were paced by the outstanding international sales of Atom Egoyan's *The Sweet Hereafter*, Neil LaBute's *In The Company of Men*, and Thom Fitzgerald's *The Hanging Garden*. Fitzgerald's new film, *Beefcake*, Robert Lepage's *Nô*, three films from producer Roger Frappier, *2 Secondes*, *32 août sur terre* and *Matroni et Moi*, as well as *The Divine Ryans*, from producer Chris Zimmer, form part of Alliance Independent Films' upcoming line-up of auteur pictures.

The Company's domestic distribution arm, Alliance Releasing, experienced another record year. Paced by *Good Will Hunting*, *Austin Powers*, *Scream 2*, *The Wedding Singer*, *Spawn* and *Boogie Nights*, the division posted total Canadian box office of $72.5 million.

4

4 : Eric Bernier and Anne-Marie Cadieux star in Robert Lepage's Nô.


5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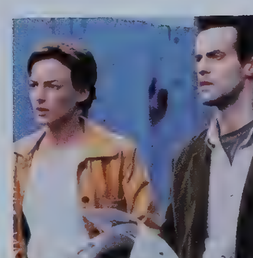

11

5 : Academy Award-winners Robin Williams and Matt Damon star in **Good Will Hunting**. **6 :** Neve Campbell and Courteney Cox in the teenage hit, **Scream 2**. **7 :** Mike Myers, star of **Austin Powers: International Man of Mystery** and entourage. **8 : Wag the Dog**, starring Academy Award-winners Dustin Hoffman and Robert DeNiro. **9 :** Academy Award-nominee Burt Reynolds stars in **Boogie Nights**. **10 :** Pam Grier in Quentin Tarantino's **Jackie Brown**. **11 :** From producer Roger Frappier, Pascale Brussières and Alexis Martin star in Denis Villeneuve's **Un 32 août sur terre**.

COMPANY PICTURES

As part of Alliance's ongoing expansion into the United Kingdom, the Company made a substantial investment in London-based Company Pictures, headed by former head of BBC films, George Faber. In the coming year, Company Pictures will produce its first slate of films, with Alliance handling world-wide distribution.

UNIVERSAL/ALLIANCE VIDEO DISTRIBUTION

Alliance Motion Picture Distribution and Universal Studios Canada Ltd. entered into a long-term agreement. Product from both companies, all sales and distribution, as well as certain marketing related functions, will be performed jointly through a long-term venture to be called Universal/Alliance Video Distribution.

ALLIANCE RELEASING UK

Alliance Releasing UK began operation in October 1997 with the release of *The Sweet Hereafter*. It has since released 5 films, including the Sundance and Independent Spirit award-winner, *In The Company of Men*. Its upcoming slate of releases includes British movies *The Governess*, starring Minnie Driver, and *Titanic Town*.

ALLIANCE CINEMAS

To capitalize on the brand and maximize revenues, the Company has launched a joint venture with Famous Players and created the Alliance Cinema theatre circuit. Alliance Cinemas will be exclusively dedicated to the upscale product in which the Company's distribution arm excels. The venture will begin operation in the Fall of 1998 with 12 screens in Toronto and Vancouver. Further expansion across the country will take place over the next few years.

NORSTAR ENTERTAINMENT

As part of its ongoing strategy to build the Company's library of filmed entertainment, Alliance acquired Norstar Entertainment in December. A leading independent Canadian distributor, Norstar's library of 200 motion pictures adds to the value of Alliance's library. It includes *I've Heard The Mermaids Singing*, *Prom Night*, *Highway 61* and *Outrageous!*

ODEON FILMS

In June 1998, the Company acquired a 75% interest in Cineplex Odeon Films, which will operate as a parallel distribution track under the name Odeon Films. The Company also has a long-term supply arrangement with October Films.

JEFF WACHTEL
President, Alliance Television Productions

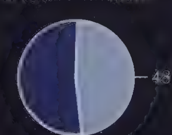
LAURIE POZMANTIER
Executive Vice President

CHRISTINE SHIPTON
Senior Vice President, Creative Affairs

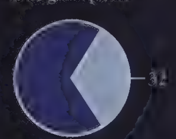
IAN McDOUGALL
Senior Vice President, Production

TELEVISION GROUP

% of total revenues



% of gross profit



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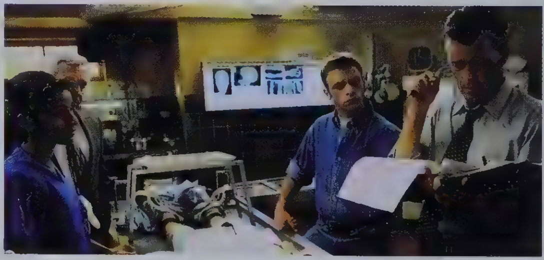

14

12 : Paul Gross and Callum Keith Rennie return for another season of ratings hit **Due South**. **13 :** Barbara Williams and Marcus Graham star in the sizzling South Beach drama **Sins of the City**, for USA Network. **14 :** Sue Matthew, Ian Tracey and Nicolas Campbell star in **DaVinci's Inquest**, a new series for CBC.

Strong international sales and a 118% increase in production for television year over year – from 56 to 122 hours, or from 69 hours to 135 hours, including animation – have combined to post record revenues for Alliance's television group in fiscal 1998.

A new season of Due South (CTV), starring Paul Gross and Callum Keith Rennie, got underway and, once again, the series was the highest-rated Canadian drama on television. A fourth season of *Due South*, with 13 final episodes, will air in the Fall of 1998. *Black Harbour* (CBC), from Executive Producers Wayne Grigsby and Barb Samuels, completed a second season of 13 episodes, with another 13 underway for fiscal 1999. *Da Vinci's Inquest*, from Executive Producers Chris Haddock and Lazslo Barna, a new series for the CBC, began production in Vancouver in January.

Other new series which began production in fiscal 1998 for broadcast in the '98-'99 season are:

Sins of the City - 13 hours for USA Network - detective drama, shooting in Miami.
Power Play - 13 hours for CTV - hockey drama, shooting in Hamilton.
Welcome to Paradox - from Chesler/Perlmutter Productions - 13 hours for USA Sci-Fi Network - sci-fi anthology, shooting in Vancouver.
Nothing Too Good for a Cowboy - 13 hours for CBC - family drama, shooting in Vancouver.
Total Recall: The Series - 22 hours for Showtime in the US and WIC Stations in Canada - action drama, shooting in Toronto.
Cover Me - 6 hours for CBC - action drama, shooting in Toronto.
The Crow: Stairway to Heaven - 22 hours in association with PolyGram Television for first run syndication in the US, Chum Stations in Canada - shooting in Vancouver.
Little Men - 13 hours for PaxNet - family drama, shooting in Toronto.
Jett Jackson - 13 half-hours for The Disney Channel - children's action adventure, shooting in Toronto.


15

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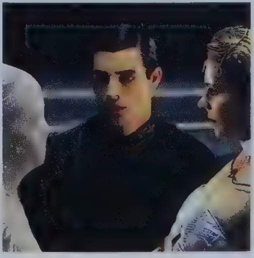

17


18

15 : Michael Easton stars as a timecop in Alliance's new action/adventure series **Total Recall**. **16 : Power Play**, the new hockey drama now shooting in Hamilton. **17 :** Michael Philip stars in the futuristic TV series **Welcome to Paradox**. **18 :** Gordon Green and Lee Thompson star in **Jett Jackson**.

19

20

19 : John Woo directing the movie pilot **Blackjack**. **20 :** Academy Award-nominee Diane Keaton and Joseph Cross star in **Northern Lights** for the Disney Channel.

21

22

Ten television movies were delivered in the fiscal year. The top-seller internationally was *Blackjack*, directed by John Woo and starring Dolph Lundgren. It will be broadcast in the US on USA Network, in Canada on CTV, in Germany on ProSeiben and in France on M6, and is a strong contender for a new action series. Another movie, *Nothing Too Good for a Cowboy*, starring Sarah Chalke and Ted Atherton, produced for the CBC, has already turned into a series with an initial order of 13 episodes for fiscal 1999. Other movie highlights include *Northern Lights*, starring Diane Keaton, which was top-rated on The Disney Channel, and *Shadow Warriors*, starring Terry "Hulk" Hogan, which was a ratings hit on TNT and has led to a sequel for fiscal '99. *Shot Through the Heart*, a drama about the Bosnian war, starring Vincent Perez and Linus Roache, was produced for HBO, and the third installment of the *Family of Cops* franchise, starring Charles Bronson, was delivered to CBS, and to CTV in Canada. Three new Harlequin Romance movies, *This Matter of Marriage*, *Hard to Forget* and *Diamond Girl*, were delivered to Showtime's The Movie Channel in the US and to CTV in Canada. With yet another 3 Harlequin movies for fiscal 1999, the company now has 12 Romance movies in its library.

21 : Sarah Chalke stars in **Nothing Too Good for a Cowboy**, a new series for CBC. **22 :** Linus Roache, Lia Williams and Karianne Henderson in **Shot Through the Heart** for HBO.

Also completed in the year, *At the End of the Day: The Sue Rodriguez Story* stars Wendy Crewson, which will air this fall on CBC in Canada.

With 90 one-hour episodes delivered, Alliance's Gemini award-winning drama *North of 60* had its final production season in fiscal 1998. A television movie which reunites the show's characters will be delivered in 1999.

Our television movie slate for Fiscal 1999 is at an all-time high. Six futuristic suspense thrillers for UPN, co-produced with CLT-UFA, three movies for CBS from Citadel, a movie for NBC also from Citadel, three movies and a four-hour mini-series for CBC, and a movie for CTV are currently underway.

23

24

23 : At the End of the Day: The Sue Rodriguez Story, starring Gemini award-winner Wendy Crewson. **24 :** Gordon Tootoosis stars in **Big Bear,** a four hour mini-series for CBC.

25

26

27

THREE NEW MOVIES FROM CITADEL

25: **Emma's Wish** starring Della Reese for CBS. 26: Janine Turner in **Beauty** for CBS. 27: Gian Carlo Esposito and Adam Arkin in **Thirst** for NBC.

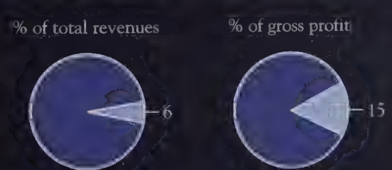
CITADEL ENTERTAINMENT

Alliance acquired Los Angeles-based Citadel Entertainment, LLC in December. Citadel is a leading producer of top-rated television movies, most recently, *Pandora's Clock* (NBC), *Cinderella* (ABC), *Match Made in Heaven* (CBS), and *Rasputin* (HBO). David Ginsburg, Citadel's Chief Executive Officer, remained with the Company, and in April, was named to the newly created position of President of Filmed Entertainment for Alliance. Citadel remains an important Alliance brand, producing high quality network television movies.

CITADEL
ENTERTAINMENT, LLC

PHYLLIS YAFFE
President

BROADCASTING GROUP



Alliance Broadcasting turned in another outstanding year paced by Showcase Television, the division's all-drama specialty channel. A 26% increase year over year in the 2^{+} audience demographic has made Showcase the number one channel among all specialty services launched in January 1995.

Alliance's second specialty channel, History Television, was launched October 17, 1997 with a programming blend of documentaries, movies and dramatic series from Canada and around the world. The channel ranks among the top specialty services for high income viewers.

ADVERTISING REVENUES

Showcase achieved outstanding gains in ad revenue for fiscal 1998, increasing 33.8% over last year to stand at $7.1 million.

CABLE SUBSCRIBERS

The number of Showcase subscribers increased over the year as well - up 23% from one year earlier to 4.3 million homes across Canada.

28

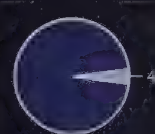
29

28 : Pulp Fiction - 549,000 viewers – not only the highest rating in Showcase's history, but the largest movie audiences ever achieved by a Canadian specialty channel. **29 : Oz**: Showcase's top-rated series.

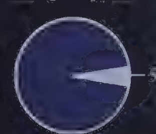
JEFF RAYMAN
Chairman, Alliance Multimedia

MULTIMEDIA GROUP

% of total revenues



% of gross profit



ANIMATION

In partnership with CGI animator Mainframe Entertainment, 13 new episodes of *Beastwars* (YTV) were delivered, with 13 new episodes underway, bringing the total to 52. Mainframe also delivered 16 half-hours of *ReBoot* (YTV), bringing the total to 39. 13 episodes of *Captain Star* (Teletoon) were also delivered in the fiscal year.

MERCHANDISING

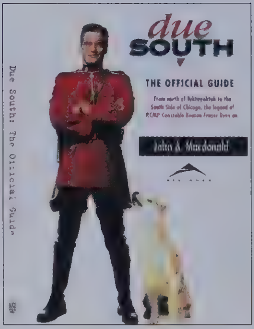
Although they began in association with animation, Alliance's activities in both licensing and merchandising expanded through the year, largely in connection with *Due South*.

Fans from around the world were able to purchase *Due South* merchandise on a retail basis or via the official web-site. Titan Books of the UK launched an Official Due South Companion Booklet for international fans. For the upcoming year, Canada's Key Porter Books is developing another *Due South* publication to coincide with the broadcast of new episodes this fall.

TMP – THE MUSIC PUBLISHER

Alliance owns 75% of TMP, a company that administers a continuously growing library of song titles. TMP continues to serve as a source of music for Alliance productions including *Strike*, *The Sweet Hereafter*, *Due South* and *Blackjack*. TMP also placed one of its Jane Siberry songs in the movie *As Good As It Gets*.


30



31

32

33

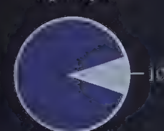
30 : Richard E. Grant as the voice of **Captain Star**. **31 : The Due South Companion Book**. **32 :** Assorted merchandising samples. **33 :** The Music Publisher – **TMP** generates publishing revenues from songs appearing on albums and movie soundtracks.

ROBERT BEATTIE
Vice President,
Equicap Financial Corporation

EQUICAP

% of total revenues

% of gross profit



Equicap's net contribution to the Company's bottom line continues to decline as anticipated. An extension of the deadline for tax shelter transactions from July 31 to October 31 resulted in stronger earnings than expected over the year, but the Company does not expect any further tax shelter revenue.

A wholly-owned subsidiary, Equicap Financial provides high yield loans to independent film and television producers. In the past year, Equicap Financial has closed 13 transactions, as compared to 6 one year earlier, with revenues increasing dramatically from $600,000 to $3.1 million year over year.

34

34 : Two of the projects financed by Equicap Financial Corporation.

MOTION PICTURES

1997 CANNES INTERNATIONAL FILM FESTIVAL (MAY 1997)
Grand Prix - The Sweet Hereafter
International Critics Prize - The Sweet Hereafter
Ecumenical Prize - The Sweet Hereafter

1997 TORONTO INTERNATIONAL FILM FESTIVAL (SEPTEMBER 1997)
Toronto City Award for Best Canadian Film (shared) - The Sweet Hereafter, The Hanging Garden
Air Canada's People's Choice Award - The Hanging Garden
3rd Place Metro Media Award - The Sweet Hereafter

1997 VALLADOLID INTERNATIONAL FILM FESTIVAL (NOVEMBER 1997)
Golden Spike - The Sweet Hereafter
Best Director of Photography - The Sweet Hereafter

1997 GENIE AWARDS (DECEMBER 1997)
Best Motion Picture - The Sweet Hereafter
Best Achievement in Direction - The Sweet Hereafter
Best Screenplay - The Hanging Garden
Best Performance by an Actor in a Leading Role - The Sweet Hereafter
Best Performance by an Actress in a Supporting Role - The Hanging Garden
Best Performance by an Actor in a Supporting Role - The Hanging Garden
Best Achievement in Cinematography - The Sweet Hereafter
Best Achievement in Editing - The Sweet Hereafter
Best Achievement in Music, Original Score - The Sweet Hereafter
Best Overall Achievement in Sound - The Sweet Hereafter
Best Achievement in Sound Editing - The Sweet Hereafter
Claude Jutra Award (Best Direction of a First Feature Film) - The Hanging Garden

1997 NEW YORK FILM CRITICS CIRCLE
Best First Film - In the Company of Men

1997 DEAUVILLE FESTIVAL OF AMERICAN FILM
Jury Prize - In the Company of Men
Fun Radio Trophy - In the Company of Men

1997 TORONTO FILM CRITICS ASSOCIATION
Best Film - The Sweet Hereafter
Best Canadian Film - The Sweet Hereafter
Best Director - The Sweet Hereafter
Best Actor - The Sweet Hereafter

1997 SOCIETY OF TEXAS FILM CRITICS
Best Picture - The Sweet Hereafter
Best Director - The Sweet Hereafter

1997 VANCOUVER INTERNATIONAL FILM FESTIVAL
Most Popular Canadian Film - The Hanging Garden
Rogers Canadian Screenplay Award - The Hanging Garden

1997 TAORMINA FILM FESTIVAL
Mashera di Polifemo for Best Actor - In the Company of Men
Mashera di Polifemo for Best Actress - In the Company of Men

1997 SUNDANCE FILM FESTIVAL (JANUARY 1998)
Filmmakers' Trophy Award - In the Company of Men

1998 ROTTERDAM INTERNATIONAL FILM FESTIVAL (JANUARY 1998)
Fipresci Award - First Love, Last Rites

1998 NATIONAL BOARD OF REVIEW AWARDS (FEBRUARY 1998)
Best Ensemble - The Sweet Hereafter

1998 ACADEMY AWARDS (MARCH 1998)
Best Director Nominee - Atom Egoyan, The Sweet Hereafter
Best Adapted Screenplay Nominee - Atom Egoyan, The Sweet Hereafter

1998 INDEPENDENT SPIRIT AWARDS (MARCH 1998)
Best Foreign Film - The Sweet Hereafter

1998 CANADIAN SOCIETY OF CINEMATOGRAPHERS
Best Theatrical Feature Cinematography - The Sweet Hereafter

TELEVISION

1998 NEW YORK FESTIVALS (JANUARY 1997)
Finalist Certificate - The Hunchback

1997 BANFF TELEVISION FESTIVAL (JUNE 1997)
Special Jury Prize - Due South
Telefilm English Canada Prize - Due South

1997 PRIMETIME EMMY AWARDS (SEPTEMBER 1997)
Outstanding Costume Design for a Miniseries or Special - The Inheritance
Outstanding Costume Design for a Miniseries or Special Nominee - The Hunchback
Outstanding Art Direction for a Miniseries or Special Nominee - The Hunchback
Outstanding Hairstyling for a Miniseries or Special Nominee - The Hunchback
Outstanding Makeup for a Miniseries or Special Nominee - The Hunchback

1997 CAB AWARDS (OCTOBER 1997)
Best Drama in a Multi Market - Due South

1997 CABLE ACE AWARDS (OCTOBER 1997)
Best International Dramatic Special or Series/Movie or Miniseries - Mother Trucker
Best Makeup in a Dramatic Special or Series/Movie or Miniseries - The Hunchback

1997 COLUMBUS INTERNATIONAL FILM AND VIDEO FESTIVAL (OCTOBER 1997)
The Chris Award - Justice on Wheels: The Diana Kilmury Story
The Bronze Plaque, TV Movie - The Inheritance
The Bronze Plaque, TV Series - Straight Up

1998 YTV ACHIEVEMENT AWARDS (FEBRUARY 1998)
Best Acting, TV Series - Straight Up
Honourable Mention - Black Harbour

12TH ANNUAL GEMINI AWARDS, 1997 (MARCH 1998)
Best Writing in a Dramatic Series - North of 60
Best Original Music Score for a Dramatic Series - Black Harbour
Best Original Music Score for a Program or Mini-Series - Dead Silence
Best Photography in a Dramatic Program or Series - The Arrow
Best Sound in a Dramatic Program or Series - The Arrow
Best Production Design or Art Direction in a Dramatic Program or Series - The Arrow
Best Performance by an Actor in a Featured Supporting Role in a Dramatic Program or Mini-Series - The Arrow
Outstanding Technical Achievement Award - Harvey Rogers, Alliance Broadcasting; John Howells, Sony of Canada

1998 WORLDFEST HOUSTON AWARDS (APRIL 1998)
Gold Medal for Best Documentary Series - A Scattering of Seeds
Gold Medal, Pilots - Shadow Warriors
Silver Medal, Feature Made for Television - Northern Lights
Bronze Medal, Feature Made for Television - The Inheritance

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

Fiscal 1998 marked continued earnings growth with record earnings from operations of $20.8 million, up from $13.2 million in fiscal 1997, an increase of 57.6%, despite the decline of Alliance Equicap's tax shelter syndication business. Including the gain on sale of investment, net earnings in fiscal 1998 increased 33.5% to $24.3 million from $18.2 million in fiscal 1997. EBITDA increased 28.1% to $34.2 million for the year ended March 31, 1998 from $26.7 million for the year ended March 31, 1997.

Revenues in fiscal 1998 increased 36.3% to $385.2 million compared to fiscal 1997 revenues of $282.6 million. Revenues increased in all businesses with the exception of Equicap, where revenues declined due to the termination of the tax shelter business on October 31, 1997. Gross profit increased 18.8% to $81.7 million in fiscal 1998 from $68.8 million in fiscal 1997. The gross margin was 21.2% in fiscal 1998 compared to 24.3% in the prior year.

The following table presents a consolidated financial summary of the Company's businesses, for the years ended March 31, 1998, March 31, 1997 and March 31, 1996.

(In thousands of Canadian dollars)

							% Increase (Decrease)	
	1998	%	1997	%	1996	%	1998 over 1997	1997 over 1996
Revenues by Business:								
Alliance Television	**183,052**	**47.5**	110,463	39.1	104,676	38.9	**65.7**	5.5
Alliance Motion Pictures	**146,363**	**38.0**	113,331	40.1	121,416	45.1	**29.1**	(6.7)
Alliance Equicap	**17,314**	**4.5**	24,967	8.8	23,204	8.6	**(30.7)**	7.6
Alliance Broadcasting	**23,028**	**6.0**	19,884	7.0	16,836	6.3	**15.8**	18.1
Alliance Multimedia	**15,414**	**4.0**	13,954	5.0	2,813	1.1	**10.5**	396.1
Total Revenues	**385,171**	**100.0**	282,599	100.0	268,945	100.0	**36.3**	5.1
Direct Operating Expenses by Business:								
Alliance Television	**157,014**	**85.8**	88,699	80.3	80,486	76.9	**77.0**	10.2
Alliance Motion Pictures	**115,291**	**78.8**	90,762	80.1	109,331	90.0	**27.0**	(17.0)
Alliance Equicap	**9,020**	**52.1**	12,372	49.6	11,920	51.4	**(27.1)**	3.8
Alliance Broadcasting	**10,505**	**45.6**	11,218	56.4	7,299	43.4	**(6.4)**	53.7
Alliance Multimedia	**11,646**	**75.6**	10,765	77.1	753	26.8	**8.2**	1,329.6
Total Direct Operating Expenses	**303,476**	**78.8**	213,816	75.7	209,789	78.0	**41.9**	1.9
Gross Profit by Business:								
Alliance Television	**26,038**	**14.2**	21,764	19.7	24,190	23.1	**19.6**	(10.0)
Alliance Motion Pictures	**31,072**	**21.2**	22,569	19.9	12,085	10.0	**37.7**	86.8
Alliance Equicap	**8,294**	**47.9**	12,595	50.4	11,284	48.6	**(34.1)**	11.6
Alliance Broadcasting	**12,523**	**54.4**	8,666	43.6	9,537	56.6	**44.5**	(9.1)
Alliance Multimedia	**3,768**	**24.4**	3,189	22.9	2,060	73.2	**18.2**	54.8
Total Gross Profit	**81,695**	**21.2**	68,783	24.3	59,156	22.0	**18.8**	16.3

FISCAL 1998 COMPARED TO FISCAL 1997

Revenues in fiscal 1998 were $385.2 million, an increase of $102.6 million or 36.3% compared to $282.6 million in fiscal 1997. This increase was due to revenue growth in all businesses with the exception of Equicap due to the termination of the tax shelter business.

Alliance Television revenues in fiscal 1998 were $183.1 million, an increase of $72.6 million or 65.7%, compared to $110.5 million in fiscal 1997. This increase was due to a $41.1 million increase in production revenues and a $31.5 million increase in international distribution revenues. In the current year, 122 hours of television production were delivered compared to 56 hours in the prior year. These hours were comprised of 101.5 hours of series delivered in fiscal 1998 compared to 35 hours in fiscal 1997, 16 hours of television movies delivered in fiscal 1998 compared to 18 hours in fiscal 1997 and 4.5 hours of television pilots delivered in fiscal 1998 compared to 3 hours in fiscal 1997. The revenues did not increase in proportion to the increase in the delivered hours as the majority of the year-over-year increase in delivered hours was in television series which typically has lower per hour revenues than television movies or pilots.

Alliance Motion Pictures revenues in fiscal 1998 were $146.4 million, an increase of $33.1 million or 29.2% compared to $113.3 million in fiscal 1997. The increase is primarily due to Alliance Releasing where revenues exceeded the prior year by $25.2 million due to increased revenues in all divisions: theatrical revenues increased $9.4 million compared to the prior year; video revenues increased $8.6 million compared to the prior year; and television revenues increased $7.0 million compared to the prior year. Theatrical successes in the current year included: *Good Will Hunting*; *Scream 2*; *Austin Powers*; *The Wedding Singer*; and *Spawn*. LeMonde revenues in fiscal 1998 were $12.5 million, an increase of $0.8 million or 6.8%, compared to $11.7 million in fiscal 1997. Top revenue performers in the current year included: *Airborne*; *Black Mask*; *Dearly Devoted*; and *The Fall*. Alliance Independent Films' revenues in fiscal 1998 were $11.8 million, an increase of $9.1 million or 337.0%, compared to $2.7 million in fiscal 1997, primarily due to the success of *The Sweet Hereafter*. Alliance Pictures International, in its first year of operations, contributed revenues of $7.7 million on international sales of *Strike*. Partially offsetting the above increases in the current year, Alliance Pictures' revenues decreased by $10.8 million over the prior year from $17.0 million in fiscal 1997 to $6.2 million in the current year. In the current year, Alliance Pictures delivered *The Sweet Hereafter*, *Strike* and four LeMonde productions, which combined had lower third party production financing revenues than *Crash*, the motion picture delivered in the prior year.

Alliance Equicap revenues in fiscal 1998 were $17.3 million, a decrease of $7.7 million or 30.8%, compared to fiscal 1997 revenues of $25.0 million. The decrease is due to a $10.2 million decrease in structured financing revenues partially offset by a five-fold increase in revenues in Equicap Financial Corporation which closed thirteen deals in the current year for arrangement fee revenues and interest income of $3.1 million.

Alliance Broadcasting revenues in fiscal 1998 were $23.0 million, an increase of $3.1 million or 15.6% over the prior year due to increased advertising sales and cable subscriber fees on 800,000 more Showcase Television subscribers at March 31, 1998 than at March 31, 1997.

Alliance Multimedia revenues in fiscal 1998 were $15.4 million, an increase of $1.4 million or 10.0%, compared to fiscal 1997 revenues of $14.0 million due to increased revenues in the animation division. In the prior year 26 half-hours of *Beastwars* were delivered whereas in the current year 13 half-hours of *Beastwars*, 13 half-hours of *Captain Star* and 16 half-hours of *ReBoot* were delivered. TMP-The Music Publisher ("TMP") revenues were consistent with the prior year.

Gross profit in fiscal 1998 was $81.7 million, an increase of $12.9 million or 18.8%, compared to $68.8 million in fiscal 1997 due to gross profit growth in all businesses with the exception of Equicap. As a percentage of revenues, gross profit in fiscal 1998 was 21.2%, compared to 24.3% in fiscal 1997, due to decreased margins in Alliance Television and the decreased contribution from Alliance Equicap at favourable margins partially offset by improved margins in Alliance Motion Pictures and Alliance Broadcasting. The decreased margin in Alliance Television is primarily due to non-recurring revenues recognized in the prior year. The gross margin increase in Alliance Motion Pictures is due to increased gross margins in Alliance Pictures and Alliance Independent Films. Alliance Releasing's current year gross margin was comparable to the gross margin in the prior year.

Alliance Broadcasting's gross margin improved over the prior year due to the timing of the purchasing of program rights which impacts amortization expense.

Other operating expenses in fiscal 1998 were $47.5 million, an increase of $5.5 million or 13.1%, compared to $42.0 million in fiscal 1997. Other operating expenses as a percentage of revenues decreased to 12.3%, compared to 14.9% in fiscal 1997. Other operating expenses are comprised of corporate overhead and operating expenses other than direct operating expenses. These expenses include such items as general and administrative expenses, salaries and benefits, office rental, communications costs and professional fees. The increase in other operating expenses was primarily due to head count increases in new and expanding businesses and increased overhead associated with acquisitions, such as Citadel and Norstar.

Amortization in fiscal 1998 was $5.7 million, an increase of $0.5 million or 9.6%, compared to $5.2 million in fiscal 1997 due primarily to the commencement in fiscal 1998 of amortization of leasehold improvements relating to the fiscal 1997 head office relocation.

Net interest expense in fiscal 1998 was $1.5 million, an increase of $0.2 million or 15.4%, compared to $1.3 million in fiscal 1997, reflecting increased cash requirements in the current year net of capitalized interest.

The company's effective tax rate for fiscal 1998 was 24.7% compared to 35.0% in fiscal 1997 due to the mix of taxable income from the various income tax jurisdictions and the recognition of previously unrecognized tax losses.

Net earnings in fiscal 1998 were $24.3 million, an increase of $6.1 million or 33.5%, compared to $18.2 million in fiscal 1997. Excluding the gain on sale of investment, net operating earnings in fiscal 1998 were $20.8 million, an increase of $7.6 million or 57.6%, compared to $13.2 million in fiscal 1997.

FISCAL 1997 COMPARED TO FISCAL 1996

Revenues in fiscal 1997 were $282.6 million, an increase of $13.7 million or 5.1%, compared to $268.9 million in fiscal 1996. This increase was due to revenue growth in all businesses, with the exception of a slight decline in Alliance Motion Pictures.

Alliance Television revenues in fiscal 1997 were $110.5 million, an increase of $5.8 million or 5.5%, compared to $104.7 million in fiscal 1996. This increase was due to an $8.1 million increase in production revenues, partially offset by a $2.3 million decrease in distribution revenues. In fiscal 1997, 56 hours of television production were delivered compared to 57 hours in fiscal 1996. These hours were comprised of 35 hours of series delivered in fiscal 1997 compared to 46 hours in fiscal 1996, 18 hours of television movies delivered in fiscal 1997 compared to 10 hours in fiscal 1996 and three hours of television pilots delivered in fiscal 1997 compared to one hour in fiscal 1996. On average, therefore, the size of the average hourly production budget in fiscal 1997 increased substantially over fiscal 1996 as television movie budgets per hour are generally much higher than television series budgets per hour. The decreased distribution revenues were due to exceptional revenues being earned in fiscal 1996 on certain titles which was not repeated in the same magnitude in fiscal 1997.

Alliance Motion Pictures revenues in fiscal 1997 were $113.3 million, a decrease of $8.1 million or 6.7%, compared to $121.4 million in fiscal 1996. This decrease was due primarily to the production division where revenues decreased by $15.2 million from $32.2 million in fiscal 1996 to $17.0 million in fiscal 1997. In fiscal 1997, the production division delivered one motion picture, *Crash*, whereas in fiscal 1996 three motion pictures were delivered. In Alliance Releasing, revenues in fiscal 1997 were $82.0 million, an increase of $2.2 million or 2.8%, compared to $79.8 million in fiscal 1996. Within Alliance Releasing, theatrical revenues increased $1.4 million, video revenues decreased $2.4 million and television revenues increased $3.0 million year-over-year, due primarily to the timing of the releases in the various media formats. Theatrical successes in fiscal 1997 included: *The English Patient*; *Shine*; *Michael*; and *Trainspotting*. Le Monde revenues in fiscal 1997 were $11.7 million, an increase of $7.2 million or 160.0%, compared to $4.5 million in fiscal 1996 due to the growing library of titles. Top revenue performers in fiscal 1997 included: *Lethal Tender*; *Dead Silence*; *Hostile Intent*; and *Ravager*. Alliance Independent Films' revenues in fiscal 1997 of $2.7 million decreased $2.2 million or 44.9%, compared to $4.9 million in the prior year due to the decline in the amount of new product acquired and delivered in fiscal 1997. Deliveries in fiscal 1997 included: *Denise Calls Up*; *Welcome to the Dollhouse*; and *When Night is Falling*.

Alliance Equicap revenues in fiscal 1997 were $25.0 million, an increase of $1.8 million or 7.8%, compared to fiscal 1996 revenues of $23.2 million due primarily to the success of production services deals in fiscal 1997. In addition, fiscal 1997 revenues included Equicap Financial Corporation, which commenced operations in the fall of 1996. Equicap Financial Corporation closed six deals in the period October 1996 to March 1997 for arrangement fee revenues and interest income of $0.6 million.

Alliance Broadcasting revenues in fiscal 1997 were $19.9 million, an increase of $3.1 million or 18.5%, compared to $16.8 million in fiscal 1996 due primarily to increased advertising sales. Cable revenues were slightly higher due to an increase in the subscriber base net of the impact of a lower average subscriber rate.

Alliance Multimedia revenues in fiscal 1997 were $14.0 million, an increase of $11.2 million or 400.0%, compared to $2.8 million in fiscal 1996. Distribution revenues of $12.0 million were recognized in fiscal 1997 as 26 half-hours of *Beastwars* were delivered. TMP-The Music Publisher ("TMP") revenues increased to $2.0 million, an increase of $0.9 million or 81.8%, compared to $1.1 million in fiscal 1996 due to the timing of collections of foreign royalties and also from the successes of Amanda Marshall's debut album which contained five TMP songs and the TMP song "Heaven Help My Heart", recorded by both Wynonna and Tina Arena.

Gross profit in fiscal 1997 was $68.8 million, an increase of $9.6 million or 16.2%, compared to $59.2 million in fiscal 1996. This increase was due primarily to Alliance Motion Pictures where the gross profit increased $10.5 million year-over-year. As a percentage of revenues, gross profit in fiscal 1997 was 24.3%, compared to 22.0% in fiscal 1996, due to increased margins in Alliance Motion Pictures and the change in the revenue mix, partially offset by decreased margins in Alliance Television. The increased margins in Alliance Motion Pictures were due primarily to an increased margin in Alliance Pictures where the margin improved from - 11.8% on the motion pictures delivered in fiscal 1996 to 15.9% on *Crash*, which was delivered in fiscal 1997. The decreased margins in Alliance Television were due to the increased production costs per hour of delivering higher quality television movies in fiscal 1997 such as: *The Hunchback*, *The Inheritance* and *Toe Tags* (pilot) as well as an increased proportion of television movies versus television series. Television series generally have better margins but accounted for a lower percentage of production in fiscal 1997.

Other operating expenses in fiscal 1997 were $42.0 million, an increase of $1.6 million or 4.0%, compared to $40.4 million in fiscal 1996. Other operating expenses as a percentage of revenues decreased slightly to 14.9% in fiscal 1997 compared to 15.0% in fiscal 1996. The increase in other operating expenses was primarily due to head count increases in new and expanding businesses such as Alliance Pictures International and Equicap Financial Corporation.

Net interest expense in fiscal 1997 was $1.3 million, an increase of $0.4 million or 44.4%, compared to $0.9 million in fiscal 1996, reflecting increased cash requirements in fiscal 1997, partially offset by the August, 1996 equity offering proceeds and lower interest rates.

The Company's effective tax rate for fiscal 1997 increased to 35.0% from 15.7% in fiscal 1996 due to a shift in the mix of earnings before income taxes to income tax jurisdictions with less favourable income tax rates. In addition, in fiscal 1997, the gain on sale of investment was taxed at approximately 34%.

Net earnings in fiscal 1997 were $18.2 million, an increase of $7.8 million or 75.0%, compared to $10.4 million in fiscal 1996. Excluding the gain on sale of investment, net operating earnings in fiscal 1997 were $13.2 million, an increase of $2.8 million or 26.9%, compared to $10.4 million in fiscal 1996.

LIQUIDITY AND CAPITAL RESOURCES

Earnings before interest, provision for income taxes, depreciation, amortization and minority interest ("EBITDA") increased to $34.2 million in fiscal 1998, compared to $26.7 million in fiscal 1997 and $18.8 million in fiscal 1996. Cash flow from operations was $216.6 million in fiscal 1998 compared to $240.7 million in fiscal 1997 and $174.5 million for fiscal 1996. The decrease in the cash flow from operations in fiscal 1998 is due to the significant increase in working capital requirements as a result of increased production activity.

Alliance has traditionally financed its working capital requirements principally through cash generated by operations, revolving bank credit facilities and sales of equity. The greatest demand for working capital exists during the production season, which now lasts from April to December each year as the variety of product placement end users for television productions has significantly improved to include all US and international cable and syndication networks. In addition, working capital requirements are progressively becoming less and less seasonal in nature as the company diversifies its business.

The nature of the Company's business is such that significant initial expenditures are required to produce and acquire television programs and films, while revenues from these television programs and films are earned over an extended period of time after their completion and acquisition. As Alliance's activities grow, its financing requirements are expected to grow. The Company believes it has sufficient resources to fund its operations through fiscal 1999 from cash generated by operations, new bank facilities and the net proceeds of the $49.4 million equity offering in November, 1997.

Alliance typically borrows from banks to provide interim production financing. The Company's assets are pledged as security for bank facilities. A significant portion of these borrowings relates to television program and film production and programming acquisitions.

In August 1996, the Company completed a cross-border offering of 3,020,000 Class B non-voting shares for net proceeds of $32.9 million.

In December 1996, the Company's bank facility with The Royal Bank of Canada was increased to $122 million to provide for a $65 million demand operating line, a $50 million term production financing facility, a $5 million facility to hedge foreign exchange exposure and a $2 million lease facility.

In March 1997, Equicap Financial Corporation obtained a $25 million non-recourse revolving line of credit with the Royal Bank. The line of credit forms part of the funds made available for film projects financed by Equicap Financial Corporation.

In October, 1997 the Company completed an equity offering of 2.8 million class B non-voting shares for net proceeds of $49.4 million.

In May, 1998, the Company signed a $300 million credit facility with The Royal Bank of Canada. The agreement provides the Company with a $250 million operating line to be applied largely toward the Company's growing production volume as well as acquisitions and expansion opportunities. The facility also increases Alliance Equicap's non-recourse revolving line of credit from $25 million to $35 million and provides a miscellaneous line of credit of up to $15 million for general corporate purposes.

In May 1998 Equicap Financial Corporation obtained a $25 million non-recourse revolving line of credit from Banque Nationale de Paris (Canada). The line of credit forms part of the funds made available for film projects financed by Equicap Financial Corporation.

RISKS AND UNCERTAINTIES

The Company capitalizes production and distribution costs as incurred to investment in film and television programs and such costs are amortized to direct operating expenses in accordance with SFAS 53. Under SFAS 53, all costs incurred in connection with an individual film or television program, including production costs, release prints and advertising costs, are capitalized as investment in film and television programs. These costs are stated at the lower of unamortized cost and estimated net realizable value. Estimated total production costs for an individual film or television program are amortized in the proportion that revenues realized relates to management's estimate of the total revenues expected to be received from such film or television program. As a result, if revenue estimates change with respect to a film or television program, the Company may be required to write down all or a portion of the unamortized costs of such film or television program. No assurance can be given that a write down will not have a significant impact on the Company's results of operations and financial condition.

Results of operations for any period are significantly dependent on the number and timing of television programs and films delivered or made available to various media. Consequently, the Company's results of operations may fluctuate materially from period to period and the results for any one period are not necessarily indicative of results for future periods. Ultimately, profitability depends not only on revenues but on the amount paid to acquire or produce the film or television program and the amount spent on the prints and advertising campaign used to promote it.

The Company currently finances a portion of its production budgets from Canadian governmental agencies and incentive programs, such as Telefilm Canada and federal and provincial tax credits, as well as international sources in the case of the Company's co-productions. There can be no assurance that local cultural incentive programs which the Company may access in Canada and internationally, will not be reduced, amended or eliminated. Any change in these incentive programs may have an adverse impact on the Company.

A significant portion of the Company's revenues and expenses is in U.S. dollars, and therefore subject to fluctuation in exchange rates. There is risk that a significant fluctuation in exchange rates may have an adverse impact on the Company's results of operations.

YEAR 2000

The Year 2000 or "millennium bug" issue affecting computer systems worldwide has been receiving substantial attention lately. This occurrence could cause a disruption of the Company's operations, including the inability to utilize various business systems and equipment required for normal business activities. The potential for business-critical information systems being rendered inoperable at the turn of the century has forced companies to act aggressively to avoid a disastrous situation.

The Company has established a Year 2000 plan to address this issue. The plan involves the assessment of potential problems, replacement or upgrading of computer and telecommunications software and hardware, testing of business and financial systems and review of the state of readiness of key suppliers and customers.

The Company is currently engaged in the assessment phase. Communications with suppliers and customers have been initiated. In addition, test environments have been established to ascertain the level of Year 2000 compliance of the systems in use. At the present time, the majority of business and support systems have already been determined to be compliant. The target date for establishing compliance of critical systems is December 1998. The impact and cost of modifications or replacement of software or hardware cannot be fully determined until the assessment phase is completed.

The Company has undertaken a comprehensive review of its own operations and financial reporting systems and is of the view that any internal Year 2000 issues are being adequately addressed in a timely manner to avoid any possible interruption to normal business practices.

The Company, despite its own commitment to manage and mitigate risk, cannot with absolute assurance quantify all financial and operational consequences related to this issue given the implicit business interdependencies that exist with suppliers and other third parties which are also impacted by Year 2000 issues. There can be no assurance that such parties will address these issues on a timely basis. Accordingly, contingency plans will be developed to address the potential failure of third parties to deal with the Year 2000 issue in the event that some of their systems are not Year 2000-compliant on a timely basis.

OUTLOOK

The Company achieved record results in fiscal 1998 and plans to continue to build on this success. The Company will continue to pursue its long term strategy of building networks of distribution and content library. The Company's proven ability to deliver and distribute high quality product, combined with its strong financial position, makes it well positioned to continue its aggressive growth strategy.

To better reflect our core businesses, our financial presentation will focus on television, motion pictures and broadcasting as of the first quarter of fiscal 1999. To achieve this, we will be including the financial results of Equicap Financial Corporation in our motion picture group, in view of its role as a financier of independent films, and Multimedia production will be included in our television group. Music publishing, merchandising and licensing and Alliance Equicap's financial syndication business will be presented under the heading "Other Businesses".

QUARTERLY REVIEW

The business of the Company fluctuates during the year as indicated by the table below, which summarizes quarterly results for the fiscal year ended March 31, 1998:

(In thousands of Canadian dollars except share information)

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
Revenues	66,556	94,715	83,050	140,850	385,171
Gross Profit	18,613	21,757	18,778	22,547	81,695
EBITDA	8,936	10,527	7,012	7,718	34,193
Net Earnings	7,795	5,567	4,469	6,461	24,292
Basic Earnings Per Share	$0.59	$0.42	$0.30	$0.40	$1.69

To the shareholders of Alliance Communications Corporation:

We have audited the consolidated balance sheets of Alliance Communications Corporation as at March 31, 1998 and 1997 and the consolidated statements of earnings and retained earnings and changes in financial position for each of the years in the three year period ended March 31, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three year period ended March 31, 1998 in accordance with Canadian generally accepted accounting principles.

Coopers & Lybrand

Chartered Accountants

Toronto, Ontario, Canada
May 25, 1998

As at March 31, 1998 and March 31, 1997
(In thousands of Canadian dollars)

	1998	1997
Assets		
Cash and short-term investments	$ 2,430	$ 10,777
Accounts receivable	94,623	82,184
Distribution contracts receivable	155,488	76,272
Loans receivable	40,697	9,283
Investment in film and television programs (note 2)	217,778	136,307
Development costs and investment in scripts	19,902	13,103
Property and equipment (note 3)	14,121	10,314
Broadcasting licences net of accumulated amortization of $213 (1997 - $30)	7,053	7,236
Other assets (note 4)	18,615	8,246
	$ 570,707	$ 353,722
Liabilities		
Operating loan and bank indebtedness (note 5)	$ 145,323	$ 3,361
Accounts payable and accrued liabilities	82,608	86,268
Distribution revenues payable	37,558	23,223
Income taxes (note 11)	510	10,927
Deferred revenue	61,366	62,980
Convertible debentures (note 6)	17,589	16,500
Minority interest	(24)	39
	344,930	203,298
Shareholders' Equity		
Capital stock (note 7)	140,108	88,836
Retained earnings	85,185	60,893
Cumulative translation adjustments	484	695
	225,777	150,424
	$ 570,707	$ 353,722

The accompanying notes form an integral part of these financial statements.

Signed on behalf of the board,

Harold P. Gordon
Director

Ellis Jacob
Director

For the years ended March 31, 1998, March 31 1997 and March 31, 1996
(In thousands of Canadian dollars except per share data)

	1998	1997	1996
Revenues	$ 385,171	$ 282,599	$ 268,945
Direct Operating Expenses	303,476	213,816	209,789
Gross Profit	81,695	68,783	59,156
Other Expenses			
Other operating expenses	47,502	42,037	40,363
Amortization	5,722	5,160	5,038
Interest (note 9)	1,461	1,296	893
Minority interest	(63)	(142)	562
	54,622	48,351	46,856
Earnings Before Undernoted	27,073	20,432	12,300
Gain on Sale of Investment (note 10)	5,202	7,544	-
Earnings Before Income Taxes	32,275	27,976	12,300
Provision for Income Taxes (note 11)	7,983	9,788	1,935
Net Earnings for the Year	24,292	18,188	10,365
Retained Earnings, Beginning of Year	60,893	42,705	32,340
Retained Earnings, End of Year	$ 85,185	$ 60,893	42,705
Basic Earnings per Common Share (note 12)	$ 1.69	$ 1.53	$ 1.05

The accompanying notes form an integral part of these financial statements.

For the years ended March 31, 1998, March 31 1997 and March 31, 1996
(In thousands of Canadian dollars except per share data)

	1998	1997	1996
Operating Activities:			
Net earnings for the year	**$24,292**	$18,188	$10,365
Items not affecting cash:			
Amortization of film and television programs	**294,027**	199,589	192,341
Amortization of development costs and investment in scripts	**1,900**	2,351	1,800
Amortization of property and equipment and pre-operating costs	**3,101**	2,401	2,934
Amortization of broadcasting licences and goodwill	**721**	408	304
Gain on sale of investment (note 10)	**(5,202)**	(7,544)	-
Minority interest	**(63)**	(142)	562
Deferred income taxes	**-**	3,529	1,594
Net changes in other non-cash balances related to operations (note 13)	**(102,160)**	21,950	(35,373)
Cash provided by operations	**216,616**	240,730	174,527
Investing Activities:			
Investment in film and television programs	**(369,121)**	(241,073)	(186,973)
Development costs and investment in scripts	**(8,130)**	(7,692)	(5,226)
Net additions to property and equipment	**(6,313)**	(5,237)	(2,973)
Business acquisitions (note 8)	**(9,331)**	(9,425)	135
Long term investments	**(246)**	(2,219)	(992)
Net proceeds from sale of investment (note 10)	**5,269**	7,684	-
Cash applied to investing activities	**(387,872)**	(257,962)	(196,029)
Financing Activities:			
Operating loan and bank indebtedness	**141,962**	(2,256)	5,617
Increase in loans receivable	**(31,414)**	(9,283)	-
Increase (decrease) in loans payable	**-**	(2,083)	712
Issue of convertible debentures	**1,089**	-	-
Issue of common shares	**50,088**	34,939	1,403
Deferred income tax benefit on share issue costs	**1,184**	1,602	-
Cash provided by financing activities	**162,909**	22,919	7,732
Increase (Decrease) in Cash and Short-term Investments During the Year	(8,347)	5,687	(13,770)
Cash and Short-term Investments, Beginning of Year	10,777	5,090	18,860
Cash and Short-term Investments, End of Year	$2,430	$10,777	$5,090

The accompanying notes form an integral part of these financial statements.

Alliance Communications Corporation ("the Company") is a fully integrated global supplier of entertainment products whose origins are in television and motion picture production and distribution. The Company also has interests in broadcasting, computer generated animation facilities, music publishing and financing services.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Generally Accepted Accounting Principles

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These principles conform in all material respects with the accounting principles generally accepted in the United States ("U.S. GAAP") except as described in note 19.

(b) Principle of Consolidation

The consolidated financial statements include the accounts of Alliance Communications Corporation and all of its subsidiaries.

(c) Revenue Recognition

Revenue is derived from sale of distribution rights and equity in productions and theatrical or television exhibition. Revenue is recognized as earned when the film or television program is completed and delivered, when amounts are due from the exhibitor or when a contract is executed that irrevocably transfers distribution rights to a licensee or equity to an investor, and there is reasonable assurance of collectability of proceeds.

The Company recognizes as revenue only the net benefits from sales to limited partnerships when the investor has irrevocably committed to acquire the related equity.

Fees related to loan origination, including loan restructuring or renegotiating, are recognized as revenue over the expected term of the loan.

Cable service subscriber fee revenue is accrued as earned. Advertising revenue is recognized when advertisements are aired.

Revenue for music publishing is derived from the collection of royalties on the rights owned and is recognized when received.

Amounts received and receivable and not recognized as revenue are included in deferred revenue.

(d) Short-term Investments

Short-term investments are carried at the lower of cost and market value.

(e) Loans Receivable

Loans receivable are stated net of unearned income and an allowance for credit losses. An allowance for credit losses is maintained in an amount considered adequate to absorb estimated credit-related losses. The allowance is increased by provisions for credit losses which are charged to income, and reduced by write-offs net of expected recoveries. The Company conducts ongoing credit assessments of its loan portfolio on an account-by-account basis and establishes specific allowances when doubtful accounts are identified.

(f) Investment in Film and Television Programs

Investment in film and television programs represents the unamortized costs of motion pictures and television programs which have been produced by the Company or for which the Company has acquired distribution or exhibition rights, program exhibition rights and film and television programs in progress. Costs of produced or acquired motion pictures and television programs include all production, print and advertising costs and capitalized interest, which are expected to be recovered from future revenues, net of estimated future liabilities related to the product. Program exhibition rights represent the rights to various long-term contracts acquired from third parties to broadcast television programs and motion pictures. Program exhibition rights and corresponding liabilities are recorded at the time the Company becomes committed under a license agreement and the product is available for telecast. Film and television programs in progress represent the accumulated costs of uncompleted motion pictures and television programs which are being produced by the Company.

Amortization of film and television programs produced and acquired is determined based on the ratio that current revenues earned from the film and television programs bear to expected gross future revenues. Based on management's estimates of gross future revenues as at March 31, 1998, it is expected that the investment in film and television programs will be absorbed principally over the next three years. Program exhibition rights are amortized over the lesser of two years and the contracted exhibition period beginning in the month the film or television program is premiered.

Costs of produced or acquired motion pictures and television programs is written down to the net recoverable amount if the investment is greater than the net recoverable amount. Net recoverable amount is defined as the total future revenues expected to be earned from the motion pictures and television programs, net of future costs.

(g) Development Costs and Investment in Scripts

Development costs and investment in scripts represents expenditures made on projects prior to production. Advances or contributions received from third parties to assist in development are deducted from these expenditures. Upon commencement of production, development costs and investment in scripts are charged to the production. Development costs and investment in scripts are amortized on the straight-line basis over three years commencing in the year following the year such costs are incurred when production has not commenced. Development costs and investment in scripts are written off when determined not to be recoverable.

(h) Government Financing and Assistance

The Company has access to several government programs that are designed to assist film and television production and distribution in Canada. Amounts received in respect of production assistance are recorded as revenue in accordance with the Company's revenue recognition policy for completed film and television programs. Government assistance with respect to distribution rights is recorded as a reduction of investment in film and television programs. Government assistance towards current expenses is included in net earnings for the year.

(i) Property and Equipment

Property and equipment are carried at cost less accumulated amortization. Amortization is provided, commencing in the year after acquisition, using the following rates and methods:

Computer hardware	30% principally by declining balance
Computer software	100% principally by declining balance
Furniture and fixtures	20% principally by declining balance
Equipment	30% principally by declining balance
Leasehold improvements	straight-line over the lease term
Broadcast and transmission equipment	straight-line over 5 years

(j) Broadcasting Licences

In acquisitions involving broadcasting undertakings, fair value is assigned to the broadcasting licences acquired. Broadcasting licences are amortized on a straight-line basis over a period of forty years. Broadcasting licenses are written down to the net recoverable amount if there is an expectation that the net carrying amount of the licence will not be recovered.

(k) Other Assets

Other assets include pre-operating costs related to the period before commencement of commercial operations of Showcase Television Inc. and History Television Inc. The amounts are being amortized on a straight-line basis over periods of five years, commencing on commercial operations.

Other assets also include long-term investments which are accounted for at cost when the conditions for equity accounting are not present and goodwill which is amortized on a straight-line basis over a period of ten years.

(l) Distribution Revenues Payable

Distribution revenues payable represents the excess of receipts from the distribution of film and television programs over commissions earned and distribution costs incurred and are payable to the licensor of the film or television program.

(m) Foreign Currency

Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Translation gains or losses are included in the determination of earnings except for gains or losses arising on the translation of the accounts of the foreign subsidiaries considered to be self-sustaining, which are deferred as a separate component of shareholders' equity.

(n) Non-Cash Balances Related to Operations

Non-cash balances related to operations are comprised of the aggregate of the following assets and liabilities: accounts receivable; distribution contracts receivable; other assets excluding long-term-investments and goodwill; accounts payable and accrued liabilities; distribution revenues payable; income taxes; deferred revenue; and cumulative translation adjustments.

(o) Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(p) Comparative Amounts

Certain amounts presented in the prior period have been reclassified to conform with the presentation adopted in the current year.

2. INVESTMENT IN FILM AND TELEVISION PROGRAMS

(In thousands of Canadian dollars)

	1998	1997
Completed film and television programs produced, net of amortization	$ 93,093	$ 37,218
Film and television programs acquired, net of amortization	102,592	76,134
Film and television programs in progress	22,093	22,955
	$ 217,778	$ 136,307

The Company expects that 94% of completed film and television programs produced, net of amortization, and 80% of acquisition costs related to film and television programs acquired, net of amortization, will be amortized during the three year period ending March 31, 2001.

The Company earns revenues from films and television programs which are fully amortized and are not reflected on the balance sheet.

3. PROPERTY AND EQUIPMENT

(In thousands of Canadian dollars)

	1998		1997	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware and software	$ 6,946	$ 3,162	$ 5,243	$ 2,142
Furniture and fixtures	3,934	1,460	3,206	985
Equipment	1,849	1,242	1,438	975
Leasehold improvements	6,456	1,420	4,340	881
Broadcast and transmission equipment	2,925	705	1,570	500
	22,110	7,989	15,797	5,483
Net property and equipment		$ 14,121		$ 10,314

4. OTHER ASSETS

(In thousands of Canadian dollars)

	1998	1997
Pre-operating costs, net of accumulated amortization of $1,933 (1997 - $1,338)	$ 6,172	$ 2,507
Prepaid expenses	3,555	1,344
Long-term investments	3,611	3,688
Goodwill, net of accumulated amortization of $1,700 (1997 - $1,162)	5,277	707
	$ 18,615	$ 8,246

5. OPERATING LOAN AND BANK INDEBTEDNESS

(In thousands of Canadian dollars)

	1998	1997
Bank indebtedness - gross	$ 165,464	$ 15,871
Interest expense on bank indebtedness	$ 4,037	$ 1,010
Weighted average interest rate	6.29%	6.09%

Operating loan and bank indebtedness is netted on the balance sheet with cash and short-term investments to the extent a right of offset exists.

The Company's assets and the assets of its subsidiaries have been pledged as collateral for the bank indebtedness.

At March 31, 1998, the Company had unused credit facilities aggregating $77,136,000 (1997 - $131,729,000) subject to margin calculations. These facilities are primarily used for bridge financing of productions.

6. CONVERTIBLE DEBENTURES

On October 28, 1994, the Company issued convertible, unsecured, subordinated debentures for $16,500,000 cash, bearing interest at 6.5% per year and maturing on April 5, 2002. The debentures are convertible at the option of the holder into common shares of the Company at any time after October 28, 1995 at a conversion price of $19 per share. Interest is payable in cash or additional convertible debentures at the Company's option.

On October 15, 1997 and March 31, 1998, the Company issued additional convertible debentures in respect of interest payable for $536,000 and $553,000 respectively. These debentures carry the same terms and conditions as the debentures issued on October 28, 1994.

Commencing October 28, 1999, the debentures will be redeemable at the option of the Company, provided certain conditions are met, at the issue price, together with accrued and unpaid interest to the date of redemption. The Company has the option to pay for the redemption of the debentures by issuing its own common shares to the debenture holder at a price equal to 90% of the weighted average trading price of the common shares for the last 20 consecutive trading days prior to redemption or the maturity date.

7. CAPITAL STOCK

a) The authorized capital stock of the Company consists of an unlimited number of common shares. The common shares are comprised of Class A Voting Shares (the "Voting Shares") and Class B Non-Voting Shares (the "Non-Voting Shares") which have identical attributes except that the Non-Voting Shares are non-voting and each of the Voting Shares is convertible at any time at the holder's option into one fully paid and non-assessable Non-Voting Share. The Non-Voting Shares may be converted into Voting Shares only in certain circumstances.

b) During fiscal 1998, the following transactions occurred:
In November 1997, 2,800,000 Non-Voting Shares were issued pursuant to a public offering at a gross price of $18.00 per share for proceeds of $49,362,000, net of issue expenses and income tax benefits; and

During fiscal 1998, 379,381 Voting Shares were converted into Non-Voting Shares. In addition, 150,840 employee stock options for 36,133 Voting Shares and 114,707 Non-Voting Shares were exercised pursuant to the Company stock option plan for proceeds of $1,910,000.

c) During fiscal 1997, the following transactions occurred:
In August 1996, 3,020,000 Non-Voting Shares were issued pursuant to a public offering at a gross price of US$8.50 per share for proceeds of CDN$32,920,000, net of issue expenses and income tax benefits;

In September 1996, 10,000 Non-Voting Shares were issued in connection with the acquisition of film and television programs at $13.62 per share for proceeds of $136,000;

In January 1997, 95,421 Non-Voting Shares were issued in connection with the purchase of a long-term investment at $11.79 per share for proceeds of $1,125,000;

In January and February 1997, 162,807 Non-Voting Shares were issued in connection with the acquisition of an additional 44% ownership interest in Showcase Television Inc. at $11.84 per share for proceeds of $1,927,000 (note 8); and

During fiscal 1997, 62,100 Voting Shares were converted into Non-Voting Shares. In addition, 37,020 employee stock options for 18,509 Voting Shares and 18,511 Non-Voting Shares were exercised pursuant to the Company stock option plan for proceeds of $433,000.

d) During fiscal 1996, the following transactions occurred:
On April 26, 1995, the Company reorganized its share capital and created the Voting Shares and Non-Voting Shares, converted each existing common share into one-half of a Voting Share and one-half of a Non-Voting Share, and cancelled all of the existing authorized and issued common shares; and

During fiscal 1996, 117,478 employee stock options were exercised pursuant to the Company stock option plan for proceeds of $1,403,000.

e) As a result, the issued capital stock is as follows:
(In thousands of Canadian dollars)

	1998	1997
Common shares:		
Voting Shares, 4,561,886 (1997 - 4,905,134)	**$ 24,465**	$ 26,057
Non-Voting Shares, 11,607,970 (1997 - 8,313,882)	**115,643**	62,779
	$ 140,108	$ 88,836

f) The Company has an Amended and Restated 1993 Employee Stock Option Plan which provides for the issuance of up to 1,750,000 common shares. These options generally vest in equal annual amounts over three to five years. No options are exercisable for periods of more than ten years after date of grant. Options granted under the plan may not have an option price less than the fair market value of the Non-Voting Shares on the date the option is granted.

Stock option activity for 1996, 1997 and 1998 is as follows:

	Number of Shares			Weighted Average
	Voting	Non-Voting	Total	Exercise Price
Outstanding at March 31, 1995	596,018	596,018	1,192,036	$ 12.88
Granted	-	537,520	537,520	14.75
Exercised	(58,739)	(58,739)	(117,478)	11.70
Cancelled	(99,409)	(99,416)	(198,825)	12.85
Outstanding at March 31, 1996	437,870	975,383	1,413,253	$ 13.69
Granted	5,000	121,120	126,120	14.25
Exercised	(18,509)	(18,511)	(37,020)	11.71
Cancelled	(17,934)	(17,925)	(35,859)	12.85
Outstanding at March 31, 1997	406,427	1,060,067	1,466,494	13.81
Granted	-	180,000	180,000	13.87
Exercised	(36,133)	(114,707)	(150,840)	12.64
Cancelled	(10,640)	(95,640)	(106,280)	13.96
Outstanding at March 31, 1998	359,654	1,029,720	1,389,374	$ 13.96
Exercisable at March 31, 1998	292,361	704,248	996,609	13.77
Exercisable at March 31, 1997	291,628	503,604	795,232	$ 13.20

At March 31, 1998, 1,389,374 options were outstanding with exercise prices ranging from $11.70 to $16.50 and with a weighted average remaining contractual life of 4.5 years.

8. BUSINESS ACQUISITIONS

The Company purchased the assets of Citadel Entertainment, LLC ("Citadel") on December 5, 1997 and 100% of the outstanding shares of Norstar Entertainment Inc. ("Norstar") on December 19, 1997 for cash consideration of $3,080,000 and $6,000,000 respectively. In addition, the Company accrued acquisition expenses of $280,000 and $200,000 respectively. The acquisitions were accounted for under the purchase method and the results of operations have been included in the consolidated statement of earnings from the respective dates of acquisition.

The purchase consideration for each acquisition was allocated as follows:

(In thousands of Canadian dollars)

	Citadel	Norstar
Identifiable assets acquired:		
Accounts receivable	$ -	$ 5,454
Income taxes recoverable	-	4,231
Investment in film	-	6,377
Development costs and investment in scripts	284	285
Other assets	-	6
	$ 284	$ 16,353
Liabilities assumed	-	(11,935)
Net assets acquired	$ 284	$ 4,418

The transactions resulted in goodwill of $3,076,000 and $1,782,000 respectively, net of acquisition expenses. Goodwill is being amortized on a straight-line basis over ten years.

During fiscal 1997, the Company acquired an additional 44% ownership interest in Showcase Television Inc. for total consideration of $9,207,000. The consideration was in the form of $7,280,000 cash and 162,807 common shares of the Company. The fair value assigned to the broadcasting licence in this acquisition was $7,266,000. After completion of this acquisition, the Company had a 99% ownership interest in Showcase Television Inc.

9. INTEREST

(In thousands of Canadian dollars)

	1998	1997	1996
Interest expense on long-term debt	**$ 1,125**	$ 1,073	$ 1,195
Interest income	**(1,389)**	(1,282)	(1,550)
Other	**1,725**	1,505	1,248
	$ 1,461	$ 1,296	$ 893

Interest paid for the year ended March 31, 1998 amounted to $4,612,000 (1997 - $1,925,000, 1996 - $2,040,000).

Interest capitalized during the year ended March 31, 1998 amounted to $2,654,000 (1997 - $295,000, 1996 - $180,000).

10. GAIN ON SALE OF INVESTMENT

During the year ended March 31, 1998, the Company sold a portion of its investment in Mainframe Entertainment, Inc. for net proceeds of $5,269,500 (1997 - $7,684,000) and realized a pre-tax gain on sale of $5,202,000 (1997 - $7,544,000).

11. INCOME TAXES

The differences between the effective tax rate reflected in the provision for income taxes and the Canadian statutory income tax rate are as follows:

	1998	1997	1996
Corporate statutory income tax rate	44.6%	44.6%	44.6%
Add (deduct) the effect of:			
Foreign operations subject to different income tax rates	(16.9)	(11.9)	(31.9)
Expenses not deductible for income tax purposes	1.6	2.8	2.3
Utilization of previously unrecognized tax losses	(4.4)	-	-
Other	(0.2)	(0.5)	0.7
	24.7%	35.0%	15.7%

Details of income tax balances are as follows:
(In thousands of Canadian dollars)

	1998	1997
Depreciation	$ 479	$ 388
Financing fees	(2,084)	(1,803)
Prepaid royalties	4,573	5,217
Net operating loss carry-forwards	(5,642)	(2,822)
Other	474	1,719
Deferred income taxes	(2,200)	2,699
Taxes payable	2,710	8,228
	$ 510	$ 10,927

12. EARNINGS PER SHARE

Earnings per common share is calculated on the basis of 14,408,000 (1997 - 11,919,000, 1996 - 9,840,000) weighted average common shares outstanding.

Fully diluted earnings per common share for 1998 is $1.54 (1997 - $1.44, 1996 - $0.99). This reflects the effects of employee stock options and convertible debentures outstanding as at March 31, 1998 and 1997 and 1996.

13. STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of Canadian dollars)

	1998	1997	1996
Cash provided by (used in):			
Accounts receivable and distribution contracts receivable	$ (86,201)	$ (40,427)	$ (26,569)
Accounts payable and accrued liabilities	(14,698)	38,828	(248)
Distribution revenues payable	14,335	(3,015)	(6,532)
Deferred revenue	(2,991)	30,274	(498)
Income taxes	(6,186)	(3,420)	(431)
Pre-operating costs	(4,003)	(891)	-
Other	(2,416)	601	(1,095)
Net changes in non-cash working capital balances related to operations	$ (102,160)	$ 21,950	$ (35,373)

14. GOVERNMENT FINANCING AND ASSISTANCE

Revenues include $24,144,000 of production financing obtained from the government for the year ended March 31, 1998 (1997 - $9,283,000, 1996 - $7,978,000). This financing is related to equity participation by government agencies and is repayable from distribution revenues in respect of which the financing was made. As revenues from these productions are not currently known, the amounts ultimately repayable to government agencies are not determinable. In addition, revenues include $14,866,000 of government grants relating to production activities (1997 - $7,108,000, 1996 - $6,539,000).

Investment in film and television programs includes a reduction of $10,889,000 (1997 - $10,291,000, 1996 - $10,810,000) with respect to government assistance for distribution of certain programs. Government assistance may be repayable in whole or in part depending upon future revenues generated by certain individual film and television programs. The potential amounts repayable are not determinable. In addition, revenues include $615,000 (1997 - $859,000, 1996 - $1,023,000) of government grants relating to distribution activities

15. RELATED PARTY TRANSACTIONS

Included in accounts receivable is $nil (1997 - $218,000, 1996 - $nil) due from officers of the Company.

16. COMMITMENTS AND CONTINGENCIES

a) The Company is committed with respect to operating leases for office premises and equipment expiring at various dates to May 2007. The future minimum payments under the terms of such leases are as follows:

(In thousands of Canadian dollars)	
1999	$2,079
2000	1,412
2001	1,468
2002	1,252
2003	979
Thereafter	2,027
	$9,217

Rent expense for 1998 is $2,845,000 (1997 - $2,053,000, 1996 - $1,525,000).

b) The Company is involved in various legal actions. In the opinion of management, any resulting liability is not expected to have a material adverse effect on the Company's financial position.

c) The Company has a letter of credit of US$nil outstanding at March 31, 1998 (1997 - US$2,500,000, 1996 - US$2,500,000).

17. SEGMENTED INFORMATION

The Company is vertically integrated and operates exclusively in the production, distribution and structured production financing of television programs and motion pictures, broadcasting and music publishing industries, which are considered the dominant industry segments.

Revenues include $153,170,000 (1997 - $113,216,000, 1996 - $100,902,000) derived from foreign sources.

18. FINANCIAL INSTRUMENTS

a) Fair Values of Financial Instruments

The estimated fair values of financial instruments as at March 31, 1998 and March 31, 1997 are based on relevant market prices and information available at the time. The carrying values of cash and short-term investments, accounts receivable, loans receivable, long-term investments, operating loan and bank indebtedness, accounts payable and accrued liabilities, distribution revenues payable, loans payable, and convertible debentures approximates the fair values of these financial instruments. Financial instruments with carrying values different from their fair values include:

(In thousands of Canadian dollars)

	1998		1997	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets:				
Assets for which fair value approximates carrying value	$ 141,361	$ 141,361	$ 105,932	$ 105,932
Distribution contracts receivable	155,488	151,255	76,272	74,066
Financial Liabilities:				
Liabilities for which fair value approximates carrying value	$ 265,489	$ 265,489	$ 112,852	$ 112,852
Convertible debentures	17,589	23,329	16,500	16,500

The fair value of distribution contracts receivable is based on discounting future cash flows using rates currently available for similar instruments. The Company has not written these receivables down as it expects to recover their carrying amounts fully by holding them to maturity.

The fair value of the convertible debentures is based on the difference between the conversion price and the closing stock price of the Company on March 31, 1998.

b) Concentration of Credit Risk

Accounts receivable from the federal government and a government agency in connection with production financing represents 35% (1997 - $41%) of total accounts receivable at March 31, 1998. The Company believes that there is minimal risk associated with the collection of these amounts. The balance of accounts receivable and distribution contracts receivable is widely distributed amongst customers. Loans receivable include amounts due from a relatively small number of customers. The Company maintains an allowance for credit losses in an amount considered adequate to absorb estimated credit-related losses.

19. RECONCILIATION TO UNITED STATES GAAP

The consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP. The following adjustments and/or additional disclosures, would be required in order to present the financial statements in accordance with U.S. GAAP, as required by the United States Securities and Exchange Commission ("SEC").

Under U.S. GAAP, the net earnings and earnings per common share figures for the years ended March 31, 1998, 1997 and 1996 and the shareholders' equity for the years ended March 31, 1998 and 1997 would be adjusted as follows:

(In thousands of Canadian dollars)

		Net Earnings			Shareholders' Equity	
		1998	1997	1996	1998	1997
Canadian GAAP		**$ 24,292**	$ 18,188	$ 10,365	**$ 225,777**	$ 150,424
Adjustment to development costs and investment in scripts, net of income taxes of $1,160 (1997 - $92, 1996 - $648)(a)	92	**(1,440)**	115	808	**(1,841)**	(401)
Adjustment to operating expenses with respect to stock options (b)	65	**(75)**	(77)	90	**(874)**	(799)
Adjustment to revenue with respect to television license agreements, net of income taxes of $654 (1997 - $662, 1996 - $90)(c)	115	**134**	(2,062)	(2,501)	**(5,584)**	(5,718)
Adjustment to amortization of pre-operating costs, net of income taxes of $981 (1997 - $nil, 1996 - $nil) (d)	100	**(1,217)**	-	-	**(1,217)**	-
Adjustment to income tax provision excluding cumulative effect adjustment noted below (e)	8	**(1,410)**	-	-	**(1,217)**	193
Adjustment to retained earnings with respect to stock options		-	-	-	**874**	799
U.S. GAAP excluding cumulative effect adjustment		**20,284**	16,164	8,762	**215,918**	144,498
Cumulative effect of income tax adjustment for years prior to April 1, 1993	8	-	-	-	(285)	**(285)**
U.S. GAAP		**$ 20,284**	$ 16,164	$ 8,762	**$ 215,633**	$ 144,213
Earnings Per Common Share Based on U.S. GAAP(f)						
Basic		$ 1.41	$ 1.36	$ 0.89		
Diluted		$ 1.34	$ 1.30	$ 0.86		

a) Accounting for Development Costs and Investment in Scripts
Under Statement of Financial Accounting Standards No. 53 "Financial Reporting by Producers and Distributors of Motion Picture Films" (SFAS 53), expenditures associated with the development of stories and scenarios are expensed as incurred while expenditures for properties such as film rights to books, stage plays, original screenplays, etc. are expensed if the property has been held for three years and has not been set for production. Under Canadian GAAP, development costs and investment in scripts are amortized over three years commencing in the year following the year such costs are incurred. The net difference of the two adjustments is disclosed as a U.S. GAAP reconciling item.

b) Accounting for Stock Options and Share Issuances
During fiscal 1997, the Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (SFAS 123) but, as permitted, continues to apply Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to employees" (APB 25) in accounting for its employee stock option plan for U.S. GAAP reconciliation purposes.

For the year ended March 31, 1996, compensatory employee stock options were issued and vested in the year. In accordance with APB 25, the difference between the quoted market price and the option price is recorded as compensation expense over the vesting period.

For the years ended March 31, 1998 and 1997, no compensatory employee stock options were issued which resulted in a compensation expense, however, a compensation expense was recognized for options issued in prior years as they vested in 1998 and 1997.

As the provisions of SFAS 123 have not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

For disclosure purposes the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for stock options granted: expected dividend yield of 0.0% (1997 - 0.0%, 1996 - 0.0%), expected volatility of 40.4% (1997 - 41.4%, 1996 - 39.9%), risk-free interest rate of 6.0% (1997 - 5.9%, 1996 - 6.5%) and expected life of 3 years (1997 - 3 years, 1996 - 3 years). The weighted average fair value of each stock option granted in 1998 was $4.73 (1997 - $4.77, 1996 - $5.30).

c) Revenue Recognition From Television License Agreements
Under Canadian GAAP, revenues from license agreements for television programs are recognized as earned when the television program is completed and delivered, when amounts are due from exhibitor or when a contract is executed that irrevocably transfers distribution rights to a licensee, and there is reasonable assurance of collectability of proceeds. Under SFAS 53, revenues from license agreements for television programs are recognized at the time the license periods commence instead of at the time the license agreements are executed.

d) Under Canadian GAAP, pre-operating costs related to the period before commencement of commercial operations are deferred and amortized on a straight-line basis over a period of five years commencing once commercial operation levels have been reached. Under U.S. GAAP, based on SEC staff views, these amounts are amortized over a maximum of two years starting when ready to commence commercial operations.

In future years the Company will be required to adopt Statement of Position 98-5 ("SOP 98-5"), "Reporting on the Costs of Start-Up Activities" which must be adopted in fiscal 1999 for United States reporting purposes. SOP 98-5 requires costs of start-up activities to be expensed as incurred. The adoption of the SOP will be accounted for as an adjustment to fiscal 1999 earnings of $2,659,000, net of income taxes.

e) Accounting for Income Taxes
Under Statement of Financial Accounting Standards No. 109 (SFAS 109) "Accounting for Income Taxes", the provision for income taxes under US GAAP for the year ended March 31, 1998 would be $6,598,000 (1997 - $9,218,000, 1996 - $2,493,000).

The application of SFAS 109 would decrease goodwill and increase the income tax provision by $1,410,000 relating to the recognition of additional tax losses for the year ended March 31, 1998.

f) Earnings per Common Share

For U.S. GAAP disclosure purposes, the Company has adopted the new U.S. GAAP standard for computing earnings per share, Statement of Financial Accounting Standards No. 128 (SFAS 128) "Earnings Per Share" for the year ended March 31, 1998.

Basic earnings per common share is calculated on the basis of 14,408,000 (1997 - 11,919,000, 1996 - 9,840,000) weighted average shares outstanding.

g) Consolidated Statements of Cash Flows

The Company's cash flows determined in accordance with U.S. GAAP would be as follows:

(In thousands of Canadian dollars)

	1998	1997	1996
Operating activities	$ 215,436	$ 239,985	$ 174,282
Investing activities	(384,532)	(252,676)	(195,037)
Financing activities	160,636	18,265	7,732
Effect of exchange rates on cash	113	113	(747)
Decrease (increase) in cash and cash equivalents	$ (8,347)	$ 5,687	$ (13,770)

Part of the mandate of the Corporate Governance Committee is to review the Corporate Governance practices of the company in relation to the Guidelines established in 1994 in the final report of the Toronto Stock Exchange Committee on Corporate Governance in Canada.

The Corporate Governance Committee is composed of unrelated directors of the company. An unrelated director is one who is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with a director's ability to act with a view to the best interests of the company, other than interests arising from shareholding.

MANDATE OF THE BOARD

It is the responsibility of the Board to supervise the management of the affairs and business of the company, acting with a view to the best interests of the company, pursuant to the powers granted by, and the obligations imposed under, the *Canada Business Corporations Act*, the articles and bylaws of the company, and common law. The Board holds five regularly scheduled meetings annually, as well as additional meetings to address issues from time to time. In addition, Board members are consulted informally by senior management of the company to remain informed of corporate developments which may not require formal meetings and to provide advice as needed. In the previous fiscal year the Board met on seven occasions.

The Board, either directly or through its three committees, the Audit Committee, the Compensation Committee and the Corporate Governance Committee, includes in its responsibilities:

- overseeing the strategic direction of the company's development, with a view to ensuring continued profitable growth;
- ensuring the maintenance of adequate systems of internal controls, information availability and compliance with all relevant regulations that govern the operations of the company;
- supervising the performance of senior executives of the company, including the compensation and incentivization of senior management, as well as compensation plans relating to employees and management generally;
- ensuring that the company maintains a comprehensive communications policy, with a view to strictest compliance with the company's disclosure obligations as a public company; and
- generally, ensuring that the company establishes and adheres to the highest standards of management accountability.

All of these responsibilities are addressed continuously by the Board in carrying out these duties throughout the year.

BOARD COMPOSITION

The Board currently consists of 13 directors. Of that number, nine are unrelated directors. The unrelated directors are Pierre DesRoches, Harold P. Gordon, Edward Greenspan, Ellis Jacob, Allen Karp, David J. Kassie, Anna Porter, Gerald W. Schwartz and Donald R. Sobey. In considering their qualifications as unrelated directors, the Board took into account relationships certain of the unrelated directors have or have had with the company. The company is currently a party to a consulting agreement with Mr. Gordon and Mr. DesRoches. Mr. Karp and Mr. Jacob are the Chairman and Chief Executive Officer and Executive Vice President and Chief Operating Officer of Cineplex Odeon Corporation respectively, which is the principal exhibitor of Alliance's theatrical releases in Canada.

Mr. Schwartz is Chairman, President and Chief Executive Officer of Onex Corporation, which holds a convertible debenture issued by the company in the amount of $17.6 million. Mr. Kassie is Deputy Chairman, CIBC Wood Gundy Securities Inc., which has provided investment banking services in the past to the company. In addition, from time to time, directors may be compensated for professional advisory and consulting services provided to the company. The Board does not believe that the relationship of each individual with the company could reasonably be perceived to materially interfere with that director's ability to act in the best interest of the company.

The Board has considered its composition and size, and is of the view that it is able to fulfill its duties and carry out its responsibilities effectively. The company does not have a significant shareholder.

The Board has delegated certain responsibilities to committees, which meet independently as required. The Audit Committee, the Compensation Committee and the Corporate Governance Committee are made up exclusively of unrelated directors.

Mr. Lantos, the Chief Executive Officer of the company, is also the Chairman of the Board. While the two positions are held by Mr. Lantos, in view of the number of unrelated directors and outside directors on the Board, the Board has determined that it is able to act independently of management. Any director is entitled to request that the Board meet without management present, and the Board has from time to time met without management present.

BOARD COMMITTEES

Audit Committee

The Audit Committee is responsible for the detailed review of the company's internal controls; preparation of quarterly unaudited, and annual audited, financial statements; the performance of the Chief Financial Officer; and the preparation of Management's Discussion and Analysis. In addition, it reviews the performance of the Company's auditors and recommends their appointment as required. It also assesses with the auditors the Company's amortization policies as they relate to investment in films and television programming, with a view to ensuring the prudent amortization of the Company's films and television assets in accordance with industry standards.

The Committee, comprised of Harold P. Gordon, Ellis Jacob and Donald R. Sobey met four times in fiscal 1998.

Compensation Committee

The Compensation Committee is responsible for determining the compensation and incentivization of senior executives of the company, including the Chairman and Chief Executive Officer, with a view to assessing the appropriateness of salaries and short and long term incentive plans, including bonuses and the issuance of stock options to senior executives and other employees from time to time. In addition, it is responsible for the review of the administration of the Company's employee stock option plan and for assuring a proper allocation of responsibility among senior executives and depth of management required to enable the company to achieve its long term objectives.

The Compensation Committee met three times in fiscal 1998 and is currently comprised of Harold P. Gordon, Allen Karp and David J. Kassie.

Corporate Governance Committee

The Corporate Governance Committee was formed in response to the concerns addressed in the Guidelines. Its mandate is to review the corporate governance practices of the Company in light of the Guidelines, and the needs of the Company, particularly with regard to reviewing on an ongoing basis the responsibilities and composition of the Board and its Committees, and the effectiveness of the members of the Board. It also reviews the qualification of candidates for Board membership and the list of candidates to be nominated for election by the shareholders from time to time. In addition, the Committee will review on an annual basis the remuneration and benefits paid to the directors and formalize the Company's orientation process by which it integrates new directors to the Board and the Company.

Finally, it must advise the Chief Executive Officer, within 140 days of each fiscal year end, that it is necessary or advisable that the company be Canadian-controlled. If the Committee should not so advise, the Class B Non-Voting Shares of the company are to be automatically converted into Class A Voting Shares. It is the policy of the company that any director may seek Committee approval to engage outside counsel at the expense of the Company in appropriate circumstances.

The Corporate Governance Committee met twice in fiscal 1998 and is currently comprised of Harold P. Gordon, Edward Greenspan and David J. Kassie.

DECISIONS REQUIRING BOARD APPROVAL

In addition to those matters which must by law be approved by the Board, all material transactions outside of the ordinary course of the Company's business are submitted to the Board for its approval.

SHAREHOLDER RELATIONS

The Executive Vice President, with the support of the Chief Financial Officer and the Senior Vice President, Communications, of the company, is responsible for shareholder and investor relations. All inquiries are promptly and fully addressed, having regard to limitations imposed by law and by the sensitivity of the information in relation to the Company's competitors. At the Company's annual meeting, full opportunity is afforded for shareholder questioning of senior management and the Company's activities.

BOARD EXPECTATIONS OF MANAGEMENT

The Board looks to management to formulate and carry out strategic planning with a view to achieving continuing profitable growth and obtaining maximum return on the shareholders' equity and the Company's assets. Management is also expected to provide all necessary information in a timely manner to the Board and its committees, to ensure that they properly discharge their responsibilities. Finally, the Board expects management to carry out its responsibilities to the Company and its shareholders in a prudent manner, adhering to the fundamental principles of risk management and maximum exploitation of its resources and the products that form the foundation of the Company.

BOARD OF DIRECTORS

George Burger
Director since 1995
Executive Vice President
Alliance Communications Corporation
Toronto, Ontario

Pierre DesRoches
Director since 1995
Consultant
St. Lambert, Quebec

Harold P. Gordon Q.C. * ¥ †
Director since 1992
Vice Chairman
Hasbro, Inc.
Boston, Massachusetts

Edward L. Greenspan Q.C. †
Director since 1993
Senior Partner
Greenspan, Henein & White
Toronto, Ontario

Ellis Jacob *
Director since 1992
Executive Vice President and Chief Financial Officer
Cineplex Odeon Corporation
Toronto, Ontario

Allen Karp ¥
Director since 1992
President and Chief Executive Officer
Cineplex Odeon Corporation
Toronto, Ontario

David J. Kassie ¥ †
Director since 1992
Deputy Chairman
CIBC Wood Gundy Securities Inc.
Chairman
CIBC Wood Gundy Capital
Toronto, Ontario

Robert Lantos
Director since 1985
Chairman and Chief Executive Officer
Alliance Communications Corporation
Toronto, Ontario

Victor Loewy
Director since 1989
Vice Chairman
Alliance Communications Corporation
President
Alliance Motion Picture Distribution
Toronto, Ontario

Anna Porter O.C.
Director since 1993
Chief Executive Officer and Publisher
Key Porter Books Limited
Toronto, Ontario

Jeff Rayman
Director since 1995
President
Alliance Equicap
Chairman
Alliance Multimedia
Toronto, Ontario

Gerald W. Schwartz
Director since 1995
Chairman, President and Chief Executive Officer
Onex Corporation
Toronto, Ontario

Donald R. Sobey *
Director since 1996
Chairman
Empire Company Limited
Stellarton, Nova

Q.C. = Queen's Counsel
O.C. = Order of Canada
† = Corporate Governance Committee
* = Audit Committee
¥ = Compensation Committee

MANAGEMENT EXECUTIVE COMMITTEE

Robert Lantos
Chairman and Chief Executive Officer

Victor Loewy
Vice Chairman

George Burger
Executive Vice President

Roman Doroniuk
Chief Financial Officer

Jeff Rayman
President
Alliance Equicap
Chairman
Alliance Multimedia

CORPORATE MANAGEMENT

Robert Lantos
Chairman and Chief Executive Officer

Victor Loewy
Vice Chairman

David R. Ginsburg
President
Filmed Entertainment

George Burger
Executive Vice President

Roman Doroniuk
Chief Financial Officer

Robert A. Pattillo
Senior Vice President
Corporate Communications

Perry Brock
Vice President
Information Technology Services

Paul Laberge
Vice President
General Counsel and Corporate Secretary

Marni Wieshofer
Vice President
Finance

INVESTOR LINE
(416) 966-7272

WEB SITE
http://www.alliance.ca

E-MAIL ADDRESS
alliance@alliance.ca

STOCK LISTINGS
The Toronto Stock Exchange and The Montreal Stock Exchange:
AAC.A and AAC.B
NASDAQ:
ALLIF

AUDITORS
Coopers & Lybrand
Chartered Accountants
5160 Yonge St.
North York, Ontario M2N 6L3

BANK
The Royal Bank of Canada
Royal Bank Plaza
200 Bay Street
5th Floor, South Tower
Toronto, Ontario M5J 2J5

TRANSFER AGENT/REGISTRAR
Montreal Trust Company of Canada
Corporate Services Division
151 Front Street West
8th Floor
Toronto, Ontario M5J 2N1

ANNUAL MEETING
Design Exchange
Trading Floor
234 Bay Street
Toronto, Ontario M5K 1B2
Wednesday, September 16
at 10:00am EDT

TORONTO
121 Bloor Street East
Suite 1400
Toronto, Ontario
M4W 3M5
Tel: (416) 967-1174
Fax: (416) 960-0971

MONTREAL
5 Place Ville Marie
Suite 1435
Montreal, Quebec
H3B 2G2
Tel: (514) 878-2282
Fax: (514) 878-2419

VANCOUVER
1199 West Hastings
Suite 1221
Vancouver, B.C.
V6E 3T5
Tel: (604) 687-3798
Fax: (604) 687-3958

SHANNON
Block 1, Unit C
Shannon Business Park
Shannon, Co. Clare, Ireland
Tel: 011.353.61.472329
Fax: 011.353.61.472228

PARIS
18, Rue Bayard
Place Francois 1er
75008 Paris, France
Tel: 011.331.53.83.18.00
Fax: 011.331.53.83.18.01

LOS ANGELES
301 North Canon Drive
Suite 321
Beverly Hills,
California 90210
Tel: (310) 275-5501
Fax: (310) 275-5502

LONDON
184-192 Drummond Street
Second Floor
London, NW1 3HP
Tel: 011.44.171.391-6900
Fax: 011.44.171.383-0404

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